

*Between a Rock and a Hard Place: Economic Policy and the Employment Outlook
for Indigenous Australians*

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I

Introduction

In all countries, members of poor remote communities, without a large endowment of natural resources, usually find it impossible to significantly improve their standard of living by increasing the efficiency of subsistence farming, hunting and gathering. In some countries, government transfers, or foreign aid, play an important part in increasing income. But usually this is not sufficient, and, in the search for higher incomes, a significant proportion of community members leave, either on a permanent or a temporary basis, and send remittances home. Thus, there are perhaps one hundred and twenty-five million Chinese migrant workers working on the east coast of China and sending remittances back to remote villages and towns. There are ten to twenty million Mexican nationals at work in the United States sending remittances home and gradually taking up permanent residence. Nearer to Australia, Pacific Islanders face a similar choice. To increase income they move back and forth between their home island and New Zealand and Australia. As a general rule, out-migration from small remote communities and towns is a necessary condition to significantly lift the income of those who leave and those who stay.

Indigenous Australians who live in poor remote communities, with few natural resources, have mainly lifted their income over the last three decades or so, by increasing their take-up rates of government income transfers. Community Development Employment Projects (CDEP) has also provided additional government income. Thus, in most remote communities, the level and rate of growth of income has been primarily generated by the generosity of the welfare system and the extension of CDEP. Out-migration does not seem to be important and to date, population decline in remote communities seems limited.¹

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¹ The number of Indigenous people living in remote areas is increasing but the proportion of the Indigenous population in remote areas is falling. The population is moving “away from remote and rural areas in favour of urban and metropolitan centres and consequently towards the south and east of the country” (Taylor, 2000). A considerable fraction of the change appears to arise from the changing incidence of self-identification. The 2001 Census indicates that 17.9 per cent of Indigenous people live

There are signs that government income transfers and CDEP expansion will not provide as much income growth in the future as in the past. The rate of increase of CDEP is slowing, and, under present indexation arrangements, the real level of welfare payments are not increasing. Government rhetoric, following that of US and UK governments, suggests a major reform of the welfare state aimed to increase self reliance and reduce dependence on welfare payments. It seems inevitable that the changing policy stance will spill over into welfare support for Indigenous Australians and CDEP policy and funding.

So it seems more important than ever, if Indigenous incomes are to begin to catch-up with those of all Australians, that the rate of successful out-migration should increase.² Of course, to successfully leave a remote community, and earn income to remit, it is necessary to obtain a well paying job. But this is where Australian policy seems to have failed most. We have failed to create an environment in which Indigenous Australians, unskilled in labour market terms, can successfully out-migrate. Thus, if unskilled Indigenous Australians leave small communities to go to the city they are unlikely to find work and likely to find that their standard of living does not improve.

This paper discusses why Australia has failed to develop a strong employment magnet in our cities to attract unskilled Indigenous Australians to higher levels of income and mainstream jobs. Why have we failed to create an environment in our cities and major towns in which Indigenous Australians can enjoy better health, capitalize on rising education levels and access a wider range of economic opportunities for their children?

in very remote areas, 9.1 per cent in remote areas, 22.6 in outer regional areas, 19.7 in inner regional areas and 30.6 per cent in major cities.

² I have discovered, upon reading Altman (2001), that the theme of this paper may place me among the “conservatives”. I hope not. I agree with Altman that “The economic future for Indigenous people living in Aboriginal lands has to be different from the situation obtaining in the immediate past, otherwise it is likely that remote areas and rural enclaves of poverty and dependency will not only remain but will increase in number and size with population growth.” (p.8, Altman, 2001). I also agree that we should try and directly improve the situation in remote communities. I don’t believe, however, that remote communities, as an isolated enclave depending largely on welfare payments and few links to mainstream employment outside the community, will be able to provide health outcomes and living standards closely approximating that of the Australian community. I have another difficulty. Altman seems to be arguing that government support for remote communities should increase in recognition of “customary contributions provided by Indigenous people to regional and national economy’s and industries” and ensure effective financial indemnity by those who benefit. I am sceptical that government support will be sufficient and I am not convinced that the long run sustainability of small remote communities at low income levels and poor health is necessarily a desirable outcome.

We direct our attention, therefore, almost exclusively to the major challenge facing Indigenous people – their *increasing* inability to access higher levels of mainstream employment. We define mainstream employment to exclude employment in CDEP. Mainstream employment is employment in a job that does not require giving up Newstart entitlements to receive them back in return for part-time employment. We believe that greater access to mainstream employment is a necessary condition for Indigenous Australians to enhance their economic and social opportunities and that mainstream employment is the principal vehicle for higher income, better health and lower crime rates. Furthermore, as a general rule, mainstream employment cannot usually be found in sufficient quantities in remote communities. Most mainstream employment opportunities are in cities and major towns. This is not to suggest that we should stop trying to improve economic outcomes within remote communities. The ability to integrate into mainstream employment can be influenced by policies that bear on local attitudes in remote communities towards education and integration. Nor are we suggesting that there are no remote communities, without out-migration, that may, nevertheless, be able to generate living standards and health outcomes to match those of other parts of Australia. However, since we believe it is the link between remote communities and mainstream employment that matters most, and that mainstream employment is to be found primarily outside remote communities, our emphasis is on employment of Indigenous people in total. We put aside an analysis that focussed primarily on remote communities in isolation.

The paper is structured as follows. Part II documents the changing rate of mainstream employment of Indigenous people and the deteriorating labour market that they face. Part III discusses economy-wide changes that have worsened employment outcomes for Indigenous Australians. Most of the adverse changes affecting Indigenous communities are generated by forces that are impacting adversely upon all unskilled workers. The existing policy framework that is failing to improve employment opportunities for Indigenous Australians is also failing to deliver jobs to all unskilled Australians.

Part IV looks ahead over the next half decade or so and conjectures on future employment trends. It appears that the labour market will continue to reduce opportunities for the unskilled and reduce opportunities for Indigenous Australians. In

addition, adverse outcomes for Indigenous Australians may well be accentuated by across-the-board welfare reforms.

Part V discusses the policy mix directed towards Indigenous employment and offers concluding comments.

II

The Basic Employment Facts

Changes in Indigenous employment over the last few decades are described in excellent papers by Taylor and Hunter (1998) and Hunter, Kinfu and Taylor (2003) of the Centre of Aboriginal Economic Policy Research (CAEPR), the leading world research institution devoted to the documentation and analysis of outcomes for Indigenous peoples. These papers, primarily based on Census data, document Indigenous employment growth and provide projections to the year 2011. I believe these are the most important descriptive papers ever produced by CAEPR. Their employment-population calculations are presented in Table 1 and we also include data from Altman, Biddle and Hunter (2004) and some estimates of our own.³ All calculations are estimates, but the likely margins of error do not significantly affect the interpretation of the result, except in two instances that we discuss later. The Taylor and Hunter (1998) and Hunter, Kinfu and Taylor (2003) papers adjust the Census data for changes in self-identification.⁴

There are five important points to note from Table 1.

First, the Indigenous employment-population ratio is very low. In 2001, the ratio is 40.4 per cent, which is less than two thirds of that of all Australians (Hunter et al, 2003).

Second, it appears, since 1971, that the Indigenous employment-population ratio has fallen marginally, 42.0 to 41.4 per cent, while that of all Australians has increased marginally (Altman et al, 2004).⁵ At this level of employment aggregation there is no improvement in Indigenous outcomes and the employment gap between Indigenous and all Australians has widened, but the change is not substantial.

³ For an earlier analysis of adverse employment trends based on Census data see Gregory and Daly (1997).

⁴ The methodology used is fully described in the original papers (see Taylor and Hunter, 1998). Taylor and Hunter (1998), and Hunter, Kinfu and Taylor (2003), use the incidence of self-identification at 1996 and 2001 respectively. We have marginally adjusted the data to standardise on the 2001 self-identification incidence.

⁵ Altman, Biddle and Hunter (2004) show that the Non-Indigenous employment-population ratio increases from 57.8 to 58.9 per cent over the 1971-2001 period.

Third, the Indigenous total employment data, however, are extremely misleading. Indigenous total employment, as listed in Table 1, includes the unemployed who participate in CDEP, the Indigenous “work for the dole” scheme. CDEP, implemented in 1977, involves Indigenous Australians forfeiting unemployment benefit payments to have them returned as wages, usually in compensation for part-time work. In addition, CDEP communities receive financial supplementation up to 40 per cent of the unemployment benefit payments to pay for capital equipment and administrative expenses.⁶

Employment data for non-Indigenous Australians do not include “work for the dole” participants. It seems incongruous, therefore, to include CDEP participants in the employment data for Indigenous Australians but to exclude the work for the dole group from the non-Indigenous employed. Accordingly, we define Indigenous “mainstream employment” in the conventional manner that is total employment less CDEP participants.⁷ It is quite important to make this adjustment because CDEP participation has grown rapidly since 1977. At June 1, 2001, for example, CDEP had extended to at least 270 communities and 32,616 participants.⁸

After adjusting Indigenous employment for CDEP participation, it is clear that the mainstream employment-population ratio has fallen considerably over the last thirty years. A comparison of mainstream employment at 2001, with that of 1971, when there was no CDEP, reveals a fall of the mainstream employment-population ratio from 42.0 to 29.5 per cent. This is a remarkable decline which shows no obvious signs of slowing. For each 100 adult persons added to the Indigenous population over the last decade only around 15 have found mainstream employment. A marginal employment-population ratio of 15 per cent, for a population group with such a low employment level, is extremely disappointing. This is especially so as the group has

⁶ The projects are primarily located in remote areas and designed to provide part-time employment for those with poor employment prospects, low labour market skills and difficulty in speaking English.

⁷ There are two special difficulties that arise in the Census. The first is the importance of a significant and changing rate of Indigenous self-identification. This characteristic impacts significantly on population and employment estimates but the effect on employment-population ratios is muted, although the numbers are affected. For example, over the 1996 to 2001 period the employment-population ratios fall from 40.7 to 40.4 per cent on the basis of actual Census counts. After adjustment for self-identification the ratios change to 39.0 and 40.4, respectively, suggesting that self-identification was biased towards the non-employed (see Hunter, Kinfu and Taylor, 2003). The second difficulty is the treatment of CDEP participants. CDEP employment is not explicitly sought in the Census. Some CDEP participants are counted as employed and others as unemployed (Taylor and Hunter, 2001). We adopt the calculations of Hunter, Kinfu and Taylor (2003).

⁸ In addition, it is inevitable that there will be some minor substitution between CDEP employment and employment that might otherwise have been provided by government.

been subject to substantial policy initiatives focussed on education and training to increase employment.

Fourth, it is likely that the Indigenous mainstream employment-population ratio will continue to fall. The CAEPR researchers project very weak employment growth to 2011, effectively assuming that the current marginal employment-population ratio of 15 per cent will continue to prevail. They provide no hint of an improved outcome. Their assumptions imply that the mainstream employment-population ratio will fall to 25.8 per cent and unemployment will increase to 50 per cent if CDEP participants are classified as unemployed.

Finally, there has been a considerable change in job mix within Indigenous mainstream employment over the last two decades. An Indigenous economic elite has been created and Australia now has a number of Indigenous Australians in the top three deciles of the Australian male income distribution tables where virtually no Indigenous people could be found in 1966.⁹

The rapid growth of a small class of Indigenous elite must be regarded as a great policy success. In the context of declining mainstream employment, however, it emphasises even more strongly the declining employment-population ratios for the unskilled. To throw more light on the changing nature of Indigenous employment we subtract the Indigenous elite from Indigenous mainstream employment. For our purposes, therefore, the most important data presented in Table 1 is non-elite mainstream employment, that is the number of Indigenous Australians employed and earning less than the 70th percentile of the Australian male income distribution.

These calculations indicate that the non-elite mainstream employment-population ratio, which is currently 24.1 per cent, fell by 4.3 percentage points (17.0 per cent) between 1991 and 2001. Over a period where the adult Indigenous population increased by around 60,000 mainstream non-elite employment increased by 3000 Indigenous Australians. This is an extraordinarily low employment growth.¹⁰

⁹ In the 2001 Census, the cut-off points for the top ten, twenty and thirty per cent of weekly incomes for males, 15-64 years, were \$1399, \$922 and \$800. It should be noted that a considerable proportion of the new elite are employed in the "Aboriginal industry", that is, they work in areas where their Aboriginality is an economic advantage – examples include Aboriginal politicians, public servants responsible for Aboriginal affairs and negotiators who represent Aboriginal groups with governments and mining companies. Economic success, outside the "Aboriginal industry", with perhaps the exception of sport, has been more confined and progress much slower.

¹⁰ The nature of the employment data available means that these numbers are inevitably estimates but they are of the right orders of magnitude.

There is no obvious improvement in sight for non-elite mainstream employment. Assuming that employment, CDEP and elite employment continue to grow at rates similar to those experienced over the last decade the non-elite mainstream employment-population ratio in 2011 will be 4.5 percentage points less than the current level and fall to 19.6 per cent of the adult population. Virtually none of the substantial increase in additional Indigenous population over the next decade will add to the employment level of non-CDEP employees who earn less than the 70th percentile of the Australian income distribution.

How serious is this 17.0 percent fall in mainstream non-elite employment over the last decade? How concerned should we be? Is a CAEPR projection of a 50 per cent Indigenous unemployment rate in 2011 sufficient to require new employment policies to create jobs for the unskilled. It is interesting, given the clear failure to arrest the decline in the mainstream Indigenous employment-population ratio, that there does not seem to be a clear view as to what policy is needed to substantially change the situation. I contrast two responses from two important sets of contributors.

The following policy comment is taken from Altman, Biddle and Hunter (2004). Altman and Hunter are two of Australia's best and most experienced researchers in this area. In a recent review of Indigenous economic and social outcomes over the last three decades they include a table similar to Table 1. Their employment estimates included in our Table 1 show the full-time employment-population ratio among Indigenous adults falling from 32.9 to 21.6 per cent over the period 1971 to 2001. They also show private sector employment falling from 29.7 to 22.9 per cent of adults over the same period. Their Census data over the last three decades reveal the same poor employment outcomes as that of other CAEPR authors. They comment as follows,¹¹

“ our long term analysis of official statistics at the national level indicates that in most areas social indicators are showing slow improvement. This is counter to the view – that has some currency – that Indigenous policy and outcomes have been an unmitigated failure.....

¹¹ The only data that Altman et al (2004) include in their table that shows an improvement over the last three decades are the proportion of the Indigenous population that owns or is buying their own home – an increase from 26.1 to 26.8 per cent - and the proportion of the population with post school qualifications – an increase from 3.2 to 18.2 percent of adults. Some of the ratios that are lower or about the same as their 1971 level show some improvement since 1981. Thus, full-time employment over the last two decades has increased from 19.5 to 21.6 and private sector employment has increased from 17.2 to 22.9 per cent.

the slow improvements over time are more indicative of broad policy settings being correct than of policy failure. This, in turn, provides a cautionary note from our analysis, that any radical change in policy approach at the national level might jeopardise a slow process of improvement that history suggests is under way.” p21

There is a major puzzle here. It is difficult to understand why they believe current policy is correct and that the employment evidence does not suggest policy failure. Why do they believe that progress is being made, when in other places, the same CAEPR authors has done so much to document the lack of employment growth. In the interest of debate we suggest three resolutions for this puzzle that they no doubt will react to and provide a basis for general discussion at the conference.

First, perhaps they do not see falling mainstream employment as a problem. They focus on the 1981-2001 period during which mainstream employment-population ratio *decreases* by 6.2 percentage points (17.6 per cent) and the rate of decline is increasing. Altman et al (2004) choose to focus their discussion on the full-time employment-population ratio that increases 2.1 percentage points (10.7 per cent) over the same period (but declines over the last decade). The remarkable difference between minus 17.6 per cent for mainstream employment and positive 10.7 per cent for full time employment suggests another issue that has not been addressed adequately and can be illustrated by a hypothetical example. Suppose we assume that all full-time employment is outside of CDEP. Then, by definition, the difference between full-time and mainstream employment–population ratios is the part-time employment-population ratio. This suggests a part-time employment-population ratio of 16.2 percentage points in 1981 and 7.9 percentage points in 2001. Can it be true that non-CDEP part-time employment has fallen so dramatically, when, in all other parts of the economy, part-time employment has grown so much? If part-time employment outside CDEP has really fallen so much it poses an interesting question as to why? Alternatively, perhaps this large fall in part-time employment arises because there is something wrong with the Census estimate of full-time employment. This puzzle can be also be illustrated by a slightly different focus. Over the 1981-2001 period the full-time employment-population ratio of Indigenous Australians increased 10.7 per cent but for non-Indigenous Australians the ratio fell by 14.0 per cent.¹² It

¹² This is a particularly important point. If the focus is placed on full-time employment relative to Indigenous Australians, policy has been a remarkable success and the question becomes, why is part-time employments so low and falling so much?

seems odd that changes in Indigenous full-time employment should be so different from that of all Australians unless it is occurring within CDEP.

For each of the above reasons I prefer mainstream employment as the best indicator of employment progress and support the policy assessments of Taylor and Hunter (1998) and Hunter, Kinfu and Taylor (2003) rather than Altman et al (2004).

Second, perhaps than Altman et al (2004) foresee rapid change and large improvements in non-elite mainstream employment in the near future and reject the estimates of 50 per cent unemployment. But a consideration of the long run trends indicated by the Census, and the evidence presented in Hunter, Kinfu and Taylor (2003), would seem to make this an unlikely reason for their judgement that current policy is correct.

Third, perhaps their support for the current policy stance stems from a fear of where destabilizing the current policy focus might lead?

It is interesting to contrast the policy judgment of Altman, Biddle and Hunter (2004) with the 1987 Australian government Aboriginal Economic Development Policy Statement (AEDP). That policy statement listed three priority policy goals: policy should achieve equality between Aboriginal and other Australians in employment, income and welfare dependency by the year 2000.

The AEDP goals stated in 1987 were clearly unobtainable by 2001 or even within two or three decades. The end date for the goals to be achieved was so unbelievable that no sensible person could take them seriously and the statement lost credibility. Against AEDP goals, however, the evidence suggests that the situation has deteriorated and therefore current policies are clearly ineffective and should be changed.

There is no clear suggestion in AEDP as to a set of policies that would be more effective. In addition, by so boldly stating that Indigenous economic outcomes should be the same as that of other Australians, there is no hint of a trade-off between cultural life styles and economic outcomes. The difficulties implied by these trade-offs are made clear in the context of remote communities which, in my view, cannot on average, experience the same economic outcomes as the rest of Australia. The economic resource base and the size of the communities are too small. But, despite the unreality of the AEDP position, it has always seemed self evident to me that the direction of change was right and that much higher levels of mainstream Indigenous

employment should be a major objective. Otherwise, why spend so much on encouraging higher levels of Indigenous education?

We use the contrast between these two sets of comments, in an environment where unskilled employment-population levels are falling dramatically to ask whether the balance of Indigenous employment policy is right. If a change in policy is needed, what should it be? Before addressing these questions we look at some of the economic changes that are occurring in the economy more widely and are likely to impact adversely on Indigenous employment levels.

III

Swimming Against the Tide

It seems that Indigenous policy has helped create an Indigenous Australian elite. University scholarships, public sector employment and training, the development of Indigenous political institutions and the institutional structures surrounding land rights and royalty negotiations have all been relatively effective, and good progress is likely to continue. There is a considerable ground for optimism that the high growth of an elite will continue.¹³

In contrast, policy directed towards mainstream employment for the less skilled appears to have been completely ineffective. With increasing government expenditure, and increasing emphasis on education attainment, it might have been expected that Indigenous non-elite mainstream employment would have improved. Instead employment-population ratios have fallen markedly. Why have Indigenous employment outcomes been so poor?

This question is relatively easy to answer. The answer consists of four integrated parts, none of which is Indigenous specific. Each flows from economy wide changes.

The Loss of Unskilled Jobs

An exceptional feature of the Australian labour market over the last three and a half decades has been the loss of unskilled male full-time jobs. This loss has been so substantial that as a proportion of males 15-64 years of age one full-time job in four has disappeared. Most of this job loss has fallen upon the unskilled, the labour market group to which most Indigenous Australians belong. Unskilled Indigenous Australians

¹³ Although it is not clear what proportion of this group can be attributed to increased self-identification.

have experienced job finding difficulties to much the same degree as other unskilled workers. This is an economy-wide problem that extends well beyond Indigenous Australians.

There are a number of ways to document the aggregate loss of unskilled job in the Australian labour market. In this paper, we measure skill characteristics by post school qualification attainment as stated in the 1981 and 2001 Census.¹⁴ Those with higher and bachelor degrees are placed in the skilled group, those with Diplomas, Certificates or Vocational qualifications are placed in the middle skill group and those without formal qualifications are placed in the unskilled group.

There are clear relationships between skill characteristics and the incidence of full-time job loss. Table 2 indicates that skilled male full-time employment-population ratios have fallen marginally between 1981 and 2001. For the unskilled, however, there have been very large falls. The full-time unskilled job loss for the 25-59 year age group is an extraordinary 16.4 percentage points, or 21.8 per cent.

These large employment falls have produced full-time employment-population ratios for the unskilled that are extremely low – 60.1, 62.3 and 51.9 per cent – for the age groups 25-34, 35-49 and 50-59 years respectively. In this environment, it is not surprising that unskilled Indigenous men have lost employment. Even though the unskilled full-time employment ratios are low for all Australians, they are still more than twice that for Indigenous Australians.

Have Australian women been affected by the same adverse trends against full-time employment? The answer is no (Table 2). The full-time employment-population ratios for unskilled females are about half those of skilled women but, in aggregate, there has been little change in employment across the skill groups.

There is a similar pattern for Indigenous women. The full-time employment-population ratio has remained constant at 1976 levels. As with all Australian women there has been a strong growth in part-time employment.

To conclude, Indigenous employment in remote areas may have been affected by particular changes that are specific to Indigenous employment, such as the changing technology applied to the cattle industry, but in the cities and country towns the most likely factor impacting on job loss is the economy-wide movement of labour

¹⁴ By confining the analysis to the last two decades we are not addressing the full extent of male job loss over the longer period. Nevertheless, there is still a substantial job loss to be explored. The full-time employment rates for males fell 16 per cent between the 1981 and 2001 Census dates.

demand away from the full-time employment of unskilled male labour. This same economy wide trend has severely curtailed the possibility of out-migration.

There is one more point to note. It is interesting that neither Indigenous nor non-Indigenous unskilled women have lost full-time employment. There is a clear gender bias in the economy wide job creation process, as economic power among the unskilled is shifting away from men and towards women.

Education Catch up

As the labour market has moved against unskilled labour, it is to be expected that the young would respond by increasing education levels. This process has been underway for over three decades now.

Against this background of community wide increasing education levels, special efforts have been directed towards increasing Indigenous education with considerable success. For example, according to Altman et al (2004), the number of 15-24 years attending an educational institution, as a ratio of those in this age group not attending an educational institution has increased from 6.8 per cent in 1981 to 25.9 per cent. The difficulty, however, is that it has not proved possible to close the education gap with the non-Indigenous community. They too are faced with job losses among the unskilled and have increased their education levels. For example, among non-Indigenous Australians the increase in the ratio of 15-25 year olds attending an educational institution, relative to those who are not, has increased from 17.9 to 59.9 per cent. In percentage point terms the increase for the non-Indigenous has been greater than that for Indigenous Australians.

The importance of the relationship between education and employment and the size of the education gap between Indigenous and Non Indigenous Australians can also be seen from Table 3 which lists the education attainment of Indigenous and Non-Indigenous people who access Job Network and Indigenous Employment Policy Programs; 47.7 per cent of Indigenous participants (22.3 per cent for non-Indigenous participants) have less than year 10 education, 10.6 per cent (6.2 per cent for non-Indigenous participants) have less than good English speaking ability and 23.3 per cent (12.7 per cent) have less than good English writing ability.

To arrest the fall in mainstream employment, much more needs to be done to increase Indigenous education levels. It is education levels of Indigenous Australians relative to the non-Indigenous community that must increase. The lack of noticeable catch-up is a disappointment.

Competing with other Welfare Recipients

The massive full-time job loss among unskilled Australian men has been accompanied by large increases in welfare dependency. Before 1970, the proportion of adults of workforce age dependent on government income support was around 4 per cent. By the end of the data period it had increased five fold. The rapid growth is evident among men and women.

The very large increase in the dependency ratio has important implications for Indigenous Australians. One implication is that job competition has increased. There are approximately 2.5 million welfare recipients, 15-64 years. After adjusting for population growth, full-time jobs have fallen by about 10,000 per year over the past decade.¹⁵ It is not surprising, in an environment of falling full-time employment-population ratios and an increasing number of welfare recipients, that Indigenous Australians have not done well in this competition.

Another implication of the rapid increase in welfare recipients is that the Australian government has increased job assistance programs. How well have these programs served Indigenous Australians? Is there any scope for increasing the resources directed towards these programs and, in this way, reverse the mainstream job loss?

The Effectiveness of Job Training Programs

During 2002-03, approximately 40,000 Indigenous Australians received employment services from the Job Network and Indigenous Employment Program (Table 4). Most Indigenous participants, 80 per cent, accessed mainstream programs provided by Job Network, primarily Intensive Assistance (IA) and Job Matching. The Indigenous Employment Policy program, of which Structured Training and Employment Projects (STEP) is the largest, is relatively unimportant, accounting for the remaining 20 per cent. The effectiveness of mainstream employment assistance programs, therefore, matter more to most Indigenous Australians than the effectiveness of Indigenous Employment Programs.

The Indigenous annual utilization rate of the Job Network is very high at around 29,000. The Census estimated Indigenous unemployment, for example, is around 22,000. As so many Indigenous people access the programs it is of particular

¹⁵ Between August 1995 and August 2004 full-time employment increased by 759,000. The population over 15 years of age increased by 1,969,000, producing a marginal full-time employment-population ratio of .38.

interest to ask what contribution might these programs make to Indigenous employment creation?

It is not widely known that job training and job assistance programs are very ineffective in terms of job creation. Consider estimates of the effectiveness of Intensive Assistance (IA), taken from *Indigenous Employment Policy Evaluation Stage two: effectiveness report* (DEWR, 2003). The calculations listed in Table 5 are based on hypothetical outcomes for 38,000 Indigenous Australians referred to IA and derived from detailed research undertaken by DEWR.

The first point to note is that 45 per cent of Indigenous Australians referred to Intensive Assistance (IA) make the judgement that they would be better off not undertaking the program and therefore despite being referred do not participate.

Second, of the 55 per cent of those referred, and undertake IA, just over one fifth (4560) are employed sixteen months later. Four fifths of the IA participants are unemployed. In terms of finding a job, the program is clearly ineffective for those who chose to participate.

Third, DEWR estimates that of the one fifth who are employed, 70 per cent (3200) would have found a job anyway. IA did not change their employment prospects.

To summarize, of the 38,000 referred to the IA program, only 1360 participants are employed 16 months later as a direct result of the program. This is a success rate of 4 per cent.

There is one more adjustment that might be made to the success rate. About half of the jobs attributable to IA will be part-time jobs. Consequently, the increase in full-time jobs, directly attributable to the program is around 700, or 2 per cent of referrals. On the basis of other data provided by DEWR, a success rate of around 2 per cent would lead to a rough estimate of the financial cost per job of around \$75,000.¹⁶ To analyse the effectiveness of job training programs is a difficult task and there is inevitably considerable uncertainty attached to the assessment. Nevertheless, these outcomes are extraordinarily poor.

There is an interesting point to note. The DEWR study assumes that of those who were referred but did **not** commence IA, many will nevertheless find employment because they were referred to IA. This is called a compliance effect that

¹⁶ Based on Table 5.4, p87 DEWR (2003).

can be explained as follows; to avoid undertaking the program individuals accept employment that they would not have accepted without the threat of program participation. If the threat of being referred to the program is counted as a positive effect of the program it adds a further 1910 jobs to the impact of the program.

It is a very unusual outcome, however, that most of the jobs attributable to a program arise because individuals refuse to undertake a program designed to help them find a job. Note that this seems to imply that the training, assistance and expenditure on the program does not increase productivity so that participants can find jobs at a higher rate than those who refuse the program.¹⁷ Expenditure to make individuals more productive is not as effective as the act of referral to the program that essentially costs no money.¹⁸ Consequently we prefer to focus on the direct outcome as the success measure.

Finally, what can we learn by relating these results to the macro job problem. Suppose we accept the DEWR estimate (direct and indirect effects) that the IA program creates around 4000 jobs per annum, or 20,000 jobs over a five-year period, and ignore for the moment that half of these are part-time jobs. In Table 6 we present estimates of Census employment changes over the period 1991-2001. These data indicate that non-elite employment grew by approximately 280 per annum or 1400 over the five-year period, 1996-2001. How can these estimates of 1400 jobs be reconciled with an estimate of 20,000 jobs?¹⁹ The answer is that the labour market programs ignore job turnover and yet from the viewpoint of total employment it is the Census data that matters. The juxtaposition of the Census and Job Start numbers suggest the very pessimistic conclusion that there is virtually no positive return to the Job Network programs.

¹⁷ Of course there is the difficult issue of selectivity. Among those referred to IA those with the better motivation or labour market skills may refuse to participate.

¹⁸ It is very difficult to assess the effectiveness of employment programs. Hunter and Gray (2003) give a more optimistic assessment although they say of their results "Response rates, attrition rates, methodological issues and design aspects make generalizations of these results problematic."

¹⁹ As indicated earlier it is not possible to provide exact estimates of Indigenous employment from Census data but these estimates provide good indications of the relevant orders of magnitude.

IV

Looking Ahead

The analysis to this point suggests that it is relatively easy to understand why Indigenous employment opportunities have deteriorated. Will the situation improve in the absence of any fundamental policy change? The Hunter, Kinfu and Taylor (2003) projections suggest that the Indigenous employment situation will worsen. They suggest, if CDEP participants are counted as unemployed, that the unemployment rate could be as high as 50 per cent by 2011. Is it likely that there could be a better outcome?

First, in terms of long run trends it seems extremely unlikely that the shifting demand patterns for goods and services, and the nature of technological changes that are impacting on the demand for labour, will suddenly shift and begin to advantage the unskilled. In the long term it seems that the number of unskilled jobs will continue to fall and there will inevitably be a tension between shrinking jobs and the rapid growth of the Indigenous unskilled population of workforce age.

At the moment, however, the economy is growing quickly and unemployment is falling but it will take a long time before this has a significant impact on the number of welfare recipients who are potential competitors with Indigenous workers. Furthermore, it is unlikely that the current macro growth rate can be sustained over the next decade and any economic downturn will quickly increase unemployment. It might be possible to argue, under the most optimistic of scenarios, that the rate of decline in the unskilled employment-population ratio could be arrested, but it is difficult to see a significant turnaround.

Second, it has been apparent for some time that government has begun to adopt policies to reduce the growth rate of income support recipients. The major policies to date have involved tightening eligibility criteria. A good example is the introduction of “work for the dole” and the adoption of a strict breaching regime under which around 100,000 Newstart recipients are breached each year. Another major welfare initiative, that has been stalled in the Senate, is a proposal to reduce the number of disability pensioners by changing the eligibility criteria from unable to work more than 30 hours per week to unable to work more than 15 hours. This change is designed to move as many disability pensioners on to Newstart and then into employment.

It is important to be aware that the number of income recipients relying on government income support exceeds the number of unemployed by a ratio of around three to one, so any significant success in redirecting income support recipients into employment will involve a major movement of labour. Competition for unskilled jobs is likely to increase quite significantly, not only as a result of any future demand reductions for unskilled labour, but also as a result of significant supply increases as welfare recipients begin more vigorously to seek employment. As competition for unskilled jobs increases, employment outcomes for unskilled Indigenous people will worsen.

Finally, the major reason why Indigenous income has managed to keep pace with income increases in the Australian community over the last three to four decades has been the extension of government income support into the Indigenous community – through increased take-up of welfare payments and the rapid development of CDEP. Currently, CDEP payments are tied to Newstart allowances and although indexed to CPI increases, these payments have not been indexed on average weekly wages. Newstart payments are falling behind.

To conclude, it is difficult not to come to the judgment that the next decade or so will probably evolve in much the same way as the past decade. Employment prospects for unskilled Indigenous Australians will remain poor and, in response to increased supply of young unskilled Indigenous workers from the large demographic changes that are occurring, unemployment will substantially increase.

V

Policy Mixes and Concluding Comments

Our main focus has been on the increasing inability of unskilled Indigenous Australians to access mainstream employment. Indigenous men, unskilled in labour market terms, have been particularly disadvantaged by economy-wide movements against the demand for full-time unskilled labour. This economy-wide trend has had profound effects on Australian society, ranging from increasing levels of welfare dependency to rapidly increasing levels of education among the young. Indigenous men have been particularly hurt, in labour market terms, because they are among the least skilled and the least educated. A change in these economy-wide forces are a necessary condition for a substantial improvement in economic opportunities.

The pervasive loss of unskilled jobs for all Australians makes clear that the most important policies impacting on Indigenous people are not Indigenous specific. Macro-economic policies directed towards faster economic growth and higher rates of employment creation matter most. A substantial improvement in Indigenous income and employment rests upon a substantial economy-wide improvement and to this point there is no obvious policy framework to bring this improvement about. It is extremely disappointing therefore that the economy has managed to grow so quickly and do so well in many respects but, at the same time, failed to generate sufficient unskilled full-time jobs.

A second theme has been the successful creation of a small group of Indigenous elite. The economic future for this group seems good. The creation of an elite group is important as it inevitably has positive cultural and political spill-overs into the Indigenous community. Policies are likely to continue to be effective in this area. However, there does not appear to be a substantial link between the growth of the elite and a trickle down effect to create more unskilled jobs.

A third theme has been the rapid growth of CDEP. The future of the CDEP scheme is not clear. There are three clouds on the horizon. The first cloud is that CDEP has not had a noticeable impact on job creation for Indigenous people outside the CDEP scheme. It appears to have done little, in aggregate terms, to offset the heavy employment loss of unskilled jobs. It was hoped that CDEP would act as a transition from protected and part-time employment in remote and rural communities to mainstream employment, presumably in the major towns and cities. This has not occurred and, given this failure, there must be a questioning of the continued high growth rate of CDEP.

The second cloud on the horizon is that CDEP has expanded rapidly and to a large extent is masking Indigenous unemployment. The question must be posed as to whether government will continue to allow CDEP to continue to grow as quickly in the future. If CDEP participants are counted as employed, then over the 1996-2001 period, CDEP has accounted for around 70 per cent of the growth of total employment (Table 6). Since 1981, CDEP has increased its share of employment from zero to 26.9 per cent (Table 1). Again there must be a questioning as to the nature of the subsidies offered to encourage Indigenous people to stay in remote geographical areas and small rural towns with a poor long run economic future.

The third cloud on the horizon is it is likely, over the next decade, that there will be economy-wide welfare reforms to reduce access to income support and reduce the real value of income support payments, relative to the average wage level. The reform process has already started in terms of reduced access to Newstart Allowances and Disability Pensions. In addition, Newstart payments are indexed for CPI changes and not changes in average male weekly wages. As a result real allowances are falling relative to average wages.

It is now clear that CDEP should be thought of primarily as a mechanism to transfer welfare income to remote communities, perhaps to foster some economic development, rather than a full-time mainstream job creation program. Accordingly, there seems to be a policy vacuum to facilitate the movement into mainstream jobs. In addition, if CDEP is primarily thought of as part of the welfare policy there is a danger that it will be affected by welfare reform and severely limited in scope.

The major problem therefore is the following. Policy directed towards Indigenous people has involved substantial increases in government resources with very little success, when measured in terms of reducing income support and generating higher levels of Indigenous employment income among the non-elite. Is there anything else that could be done to improve full-time employment outcomes for the Indigenous unskilled? This question is very difficult to answer in a positive and optimistic fashion. Government has tried a wide range of standard policies - education expansion, job training and wage subsidies - with very little success.

There seems to be only two ways forward. The first is to *increase* resources directed to current programs, particularly education, but, at the same time, realize that success will be slow in coming and not very spectacular. The increase in the number of Indigenous Australians of workforce age and the low success rate of Job Network programs suggests that a very substantial increase in expenditure is required.

The second direction is to look for something new. Government has emphasised that Indigenous employment should be encouraged in the private sector. The policy has had some success, although not enough to increase unskilled employment growth sufficiently to keep pace with population growth. A much faster rate of employment growth in the private sector is an important, and a necessary part of bringing Indigenous full-time employment rates closer to those of the non-Indigenous community.

As an indicator of the success of private sector initiatives Altman et al (2004) provide Census data to indicate that the private sector employment-population ratio increased from 17.2 to 22.9 percentage points between 1981 and 2001. The mainstream employment-population ratio, however, fell from 35.7 to 29.5 percentage points (Table 1). There is obviously a tension between these two employment estimates because government and private sector employment equals total employment, putting aside CDEP. For example, if we assume that there is no private sector employment in CDEP it follows that the government non-CDEP employment-population ratio fell from 18.5 to 6.6 percentage points. All the employment increase since 1981, and outside CDEP, has taken place in the private sector.²⁰ Despite the increase in education levels and despite the emphasis on improving Indigenous employment levels these calculations suggest that the government sector has not directly provided additional jobs to match the population increase.

I am surprised by these Census results. If these derived estimates of government employment are approximately correct it is difficult to understand why government has allowed this outcome to occur.²¹ It is certainly at odds with government's stated goals. If the data are not approximately correct and there is not a large fall of government employment, then there is a major problem as government plus private sector employment does not add to mainstream employment. Under these circumstances the use of private sector employment by Altman et al (2004) to argue that there has been slow and steady employment progress would not be correct because the private sector employment estimate is not correct.

We obviously need to reconcile the very different employment stories being told by different CAEPR Discussion Papers. The papers by Taylor and Hunter (1998) and Hunter et al (2003) are extremely pessimistic, as am I, and the Altman et al (2004) paper is cautiously optimistic. It is disappointing that the statistical base in this area is so poor that our very best researchers are experiencing so much difficulty in establishing consistent employment data.

²⁰ In support of the decline of government employment Hunter et al (2003) calculations suggest that after adjusting for changes in self-identification, government sector employment has fallen by around 6.5 thousand between 1996 and 2003.

²¹ The Hunter et al (2003) calculations proceed as follows. Between 1996 and 2001 total employment (including CDEP) increased by 16,915, CDEP employment increased by 11,818 and the private sector employment increased by 11,431. Assuming that these categories are mutually exclusive, government employment outside CDEP falls by 6,434. Of course this must be a rough estimate because it is not known to what degree employment in CDEP and the private and government sector overlap. Similar results, however, are evident in the Altman et al (2004) data from 1981 to 2001.

Despite this uncertainty surrounding decomposition of the employment data it does seem to be the case that for employment levels to increase, government should do more to employ Indigenous people. There is a need to adopt employment quotas for the unskilled that are tied to Indigenous population increases. Employment quotas are very unpopular with economists and governments for good reasons, And it will be difficult to focus government employment on the unskilled as government has also reduced its demand for unskilled workers. But the obvious failure of other policies to increase unskilled Indigenous employment seems to leave no alternative. There appears to be virtually no capability of the Job Network and Intensive Assistance to create jobs for Indigenous Australians.

To conclude, it is important to come to an understanding as to whether Taylor and Hunter (1998) and Hunter, Kinfu and Taylor (2003) are right and the employment situation for Indigenous people is moving backwards. If this is the case then policy to generate Indigenous employment must be pursued more vigorously. On the other hand, if Altman et al (2004) are right in their judgment that policies are more or less correct, progress is being made and there is no special need to change.

No matter how this conflict is resolved we need to realize that two lessons of history are clear. First, Indigenous specific policies will be relatively ineffective unless they are embedded in a strong macro labour market: a labour market that can create for more full-time jobs, and more jobs for the unskilled, than has been possible over the last three decades. Second, progress in job creation for the unskilled will inevitably be slow.

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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 (2004), Gregory (own calculations).

Table 2
Percent Employed Full-time by Age Group and Skill Level
1981 and 2001 Australia Census

	1981 Census			2001 Census			Difference in Unskilled E/P Full-time 1981-2001	
	Skilled	Unskilled	Total	Skilled	Unskilled	Total	Percent Points	Percent
Males								
25-34	79.9	75.9	77.6	76.6	60.1	63.9	-15.8	-20.8
35-49	86.6	79.1	79.6	80.0	62.3	66.9	-16.8	-21.2
50-59	84.8	68.6	69.9	72.7	51.9	56.6	-16.7	-24.3
Total 25-59	83.0	75.3	76.6	77.4	58.9	63.5	-16.4	-21.8
Females								
25-34	51.0	26.2	29.1	55.0	28.9	36.4	2.7	10.1
35-49	44.4	28.8	30.4	45.9	28.6	32.1	-0.2	-0.7
50-59	36.9	18.4	20.4	46.5	24.1	28.5	5.7	30.7
Total 25-59	47.7	25.3	27.6	49.5	27.5	32.5	2.2	8.7

Definitions -

Skilled is defined where education level is bachelor degree or higher, Unskilled defined as having no qualifications. Full-time is working more than 35 hours per week.

Source: Census of Population and Housing, Household 1% Sample File, Australia, 1981 and 2001.

Table 3
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 4
Participation by Indigenous Job Seekers in Employment Services
Numbers Assisted, 2002/03

<i>Indigenous Employment Policy</i>		
Wage Assistance	2238	
STEP	5426	
Other	<u>958</u>	
		8622
<i>Job Network</i>		
Job Matching	10728	
Intensive Assistance	16466	
Other	<u>1696</u>	
		28890
<i>Work for the dole</i>	<u>3213</u>	3213
<i>Total</i>		<u><u>40725</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, p16.

Table 5
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>38000</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.

Table 6
Employment and Population Changes for Indigenous Australians
'000's

	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).