

COMMONWEALTH GRANTS COMMISSION

INDIGENOUS FUNDING INQUIRY

SUBMISSION

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Please note: Attachments concerned with this submission are held in the Indigenous Funding Inquiry library.

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14 June, 2000

Re: Inquiry into the distribution of funding for programs that affect Aboriginal and Torres Strait Islander peoples

Dear Mr Morris

I am writing to provide a submission to the Commonwealth Grants Commission for an inquiry into the distribution of funding for programs that affect Aboriginal and Torres Strait Islander peoples. The attached submission is a brief summary of the issues for measuring employment need raised at the joint CGC/ CAEPR the workshop 'Existing Research and Statistical Approaches to the Measurement of Relative Need among Indigenous People: A Round-table to Inform the CGC's Indigenous Funding Inquiry' held at University House, The Australian National University, on 14 April 2000. The submission includes four attachments, some of which are also available, in electronic form, from CAEPR's website (<http://charlotte.anu.edu.au/caepr/>).

If any further information is required about this submission please do not hesitate to contact me on (02) 6279 8207.

Yours sincerely

Boyd Hunter

A PERSPECTIVE ON DEFINING AND MEASURING INDIGENOUS EMPLOYMENT NEED

by

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One of the key functional areas that the Commonwealth Grant's Commission (CGC) will cover in its inquiry into the distribution of funding for programs that affect Aboriginal and Torres Strait Islander peoples is employment and training. The main point made in the session on employment at the joint CGC/CAEPR the workshop on 14 April 2000 was that employment need is difficult to measure using existing data sources. Notwithstanding, this submission documents the potential difficulties for measuring employment need and provides some constructive comments on possible measures that the CGC could reasonably adopt.

The need for employment can be defined in two ways: from the utility it brings to an individual in terms of command over resources (money income) or through the non-pecuniary benefits/utility from work, including psychic connection to the community/society. Note that these sources of 'employment need' may not be entirely independent. For example, the existence of 'compensating differentials' may mean that some portion of the wage is a compensation for negative aspects of work for particular individuals such as risk.

Employment need is conditioned upon the desire to work. That is, how many people need work is a function of the number of people who want to work less those who are currently employed. It is not generally appropriate to assume that existing labour force indicates all those who want to work because it only includes those people who have employment or are actively seeking employment. Therefore, the exclusion of the so-called 'discouraged workers' from most conventional measures of the labour force provides the first challenge to measuring employment need.

The *Job Still Ahead*, by John Taylor and myself, provided a reasonable measure of need for jobs for all Indigenous Australian up to 2006 (Taylor and Hunter (1998) — available at <http://charlotte.anu.edu.au/caepr/>). *The Job Still Ahead* and its earlier incarnation, *[T]he Job Ahead*, are attached. While it was an influential exercise for macro policy, it is difficult to disaggregate those calculation by ATSI regions. The main problem is that the assumption of constant participation rates used in the *Job Still Ahead* disregards the existence of 'discouraged workers' who would participate in the labour market if there were an adequate number of jobs in the local region. Also, the historical estimates of the number of CDEP workers in particular regions are also problematic. However, other required for a regional breakdown of the *Job Still Ahead* is available — the ABS has published population projections by ATSI regions and employment demand can be estimated by census data. These data issues will be revisited after a brief discussion of the conceptual problems in measuring Indigenous employment need.

The conceptual issues for measuring Indigenous employment need can be divided into two main categories: those related to labour supply and the interpretation of Community Development Employment Projects (CDEP) scheme employment.

As indicated above, the main issue for accurately measuring labour supply is how many people want jobs. For a technical discussion of the issues for measuring the potential labour force of Indigenous Australians, readers are referred to CAEPR Working Paper No. 2, 'Further investigations into indigenous labour supply: what discourages discouraged workers?' (Hunter and Gray (1999) attached, but also available from CAEPR's website). For the purposes of the current CGC inquiry, it is worth drawing attention to Table 3 in that paper which identified that Indigenous people in remote and rural Australia are more likely to be discouraged from looking for work because of the lack of jobs in the local area than those in Capital cities.

Another conceptual issue revolves around the role of choice in labour supply. In the Indigenous context, traditional activities such as hunting and gathering may mean that relatively few of the population want to work in the mainstream workforce. However, Hunter (1996) found that there was little evidence of substitution between hunting and gathering and work in the mainstream Australian labour market in the

National Aboriginal and Torres Strait Islander Survey (NATSIS). Additionally, it is difficult to identify whether low Indigenous labour force participation rates in some non-metropolitan areas are due to low demand for Indigenous workers or Indigenous preference for non-market related activity. Notwithstanding, one implication of individuals' discretion in the labour supply decision is that it may be difficult to interpolate regional labour supply decisions depending on the opportunities for a hunting and gathering lifestyle in the local area.

While employment need is usually defined using aggregation of individuals, as with other measured needs, there is need to take into account household/family factors. That is, labour supply and welfare entitlements are contingent upon what other family members are doing. For example, many Indigenous married couples have little incentive to look for work because their expected wage in employment is less than their social security entitlements (see Daly and Hunter (1999) attached). However, this particular problem could be interpreted as another indication of the low level of demand for Indigenous workers in many non-metropolitan areas and the interaction of that demand with Indigenous labour supply.

The last difficulty in measuring relative labour supply and employment outcome is the selective migration of non-Indigenous population. In many non-metropolitan areas, such as in mining communities, the non-Indigenous residents only live in the region for employment reasons. That is, such residents may be self-selected on their desire to work and participate in the labour force. This probably explains the extraordinarily large disparity between Indigenous and non-Indigenous labour force participation rates in remote regions such as the Apatula and Nhulunbuy ATSIC regions (see Table 1 below). The main implication of selective migration to such areas is that expressing employment needs relative to non-Indigenous regional norms might provide a distorted picture of reality for Indigenous communities which probably include more variation in the desire to work.

The final conceptual problem is whether one treats the CDEP scheme employment, as work or welfare? In reality, the scheme contains elements of both (Sanders 1997). In terms of employment need, the CDEP scheme fulfils both aspects of the defining features of need: it provides a psychological link to society and provides some discretionary financial income, in addition to the social security entitlement (although the amount involved may be quite small - (Office of Evaluation and Audit 1997; Altman and Gray 2000). Therefore, if one gives precedence to non-pecuniary aspects of CDEP work, then CDEP scheme should be considered as employment. However, if one adopts this attitude, then one should consider the treatment of the work-for-the dole scheme as a form of work. As discussions in the workshop revealed, given that the official ABS definitions of employment excludes work-for-the-dole schemes because of the lack of an employer/employee relationship, but not CDEP scheme work, it is possible to rationalise the treatment of CDEP scheme employment as genuine work. In many areas, the CDEP scheme is the only source of employment, and in the absence of mass migration to more developed labour markets, there is little hope for increasing economic activity of local residents.

However, if one couches the need for employment in terms of command over resources, I would favour focussing on non-CDEP scheme employment. One exception might be where CDEP employment were established to add considerably to financial independence of workers. I will return to this point shortly.

How need might employment need be measured for Indigenous people by ATSIC regions? As indicated above, if one focuses on employment levels, such as in the Job Still Ahead, there is a problem with local variations in CDEP employment and labour supply. If these problems could be overcome in a satisfactory manner, then this would probably be the preferred option.

Alternatively, the shortfall of overall Indigenous employment (including CDEP scheme employment) from regional norms captures the differences in employment demand, but differences in labour supply still not accounted for. In this case, the selectivity in non-Indigenous migration may be a significant problem, which overstates the apparent level of demand for Indigenous labour. Also, any measure which includes on CDEP scheme employment on the same basis as other work is likely to understate the regional employment need. For example, the Cooktown Region in Table 1 has the highest Indigenous male labour force participation rate of any ATSIC region, presumably because of the relatively large numbers of CDEP scheme participants in the area. The Cooktown rates can be contrast to those in Cairns which, despite a larger and more buoyant labour market, has substantially lower Indigenous labour force participation rates.

Table 1. Differences in participation rates by ATSI Region, 1996

	Indigenous Males	Non-indigenous males	Indigenous Females	Non-indigenous females
Aputula	36.3	84.2	27.1	69.4
Nhulunbuy	44.2	92.3	31.9	72.3
Tennant Creek	46.3	78.4	34.2	65.3
Alice Springs	47.3	83.3	41.0	71.9
Warburton	49.4	95.3	38.0	71.7
Jabiru	51.8	78.3	33.1	65.0
Darwin	53.9	79.7	43.6	67.8
Kalgoorlie	56.8	86.3	33.0	63.2
Narrogin	59.9	76.5	35.8	54.3
Geraldton	59.9	71.6	34.0	53.0
Cairns	60.4	74.4	42.2	59.6
Bourke	60.5	69.7	37.6	49.1
Tamworth	60.7	71.8	38.3	50.4
Perth	60.9	73.4	37.7	54.9
South Hedland	61.2	86.0	38.5	63.7
Katherine	61.9	77.5	40.6	62.8
Adelaide	62.7	69.5	44.7	51.5
Wagga Wagga	63.8	72.9	38.1	51.6
Coffs Harbour	63.9	64.8	42.3	46.4
Port Augusta	65.2	71.0	44.7	48.5
Townsville	65.5	74.7	41.7	55.0
Roma	66.3	71.7	40.4	51.1
Queanbeyan	67.0	73.3	47.7	58.5
Broome	67.3	65.4	45.5	56.5
Mount Isa	67.7	83.2	36.2	63.6
Ballarat	68.5	70.6	46.5	51.7
Rockhampton	68.5	70.7	40.2	49.2
Kununurra	68.7	77.4	51.7	63.1
Brisbane	69.7	71.8	47.4	54.5
Sydney	70.0	73.2	49.8	55.4
Wangaratta	70.2	73.5	49.4	55.2
Ceduna	70.3	74.5	47.3	53.0
Torres Strait Area	71.5	83.9	46.5	71.3
Hobart	72.2	69.6	50.3	50.3
Derby	73.3	77.1	49.5	68.3
Cooktown	77.6	78.3	48.6	64.8

Note. (a) Participation rates ranked by Indigenous male rates in 1996

Finally, one could use the Indigenous non-employment rates (excluding the CDEP scheme) expressed as a per cent of the working age population, to measure command over resources. However, this indicator ignores both the problem of measuring regional labour supply and the issues raised when defining CDEP scheme work.

There are two main issues relating to the availability of data for indicators of employment need. Firstly, there is no adequate regional data on Indigenous household labour supply apart from census estimates of labour force participation rates (that is, still a problem with discouraged workers). While the NATSIS could probably be used to estimate the average number of discouraged workers (or, more generally the total number who want work but do not have it) in remote/rural areas (see Hunter and Gray 1999), this

number may vary from region to region with the incidence hunting and gathering and other alternatives to market-based work. If CDEP scheme jobs obviate the need to look for market-based work (because they meet the need for employment felt by individuals), then it is appropriate to allocate fewer discouraged workers to regions with large numbers of CDEP schemes.

One option, albeit rather arbitrary, would be to approximate the number of discouraged workers in each ATSI region using NATSIS-based information on the potential Indigenous labour force by part-of-State (Hunter and Gray 1999) and the population distribution by part-of-State in each region. If the actual participation rate is greater than the estimates for the potential labour supply, then the actual labour force would be used to calculate the number of Indigenous people who want to work in the region. The main risk arising from this approach is that the assumptions necessary to operationalise the measurement of Indigenous employment need will drive the resulting indicators. It should also be re-stated that this type of approach ignores location-specific, potentially culturally sensitive variations in preference to labour supply to the market.

The second issue about data availability and quality relates to the CDEP scheme. Is it appropriate to estimate the number of CDEP workers using a fixed proportion of CDEP participants from administration data? While this works, on average at an aggregate level, there are a few anomalies at the ATSI regional council level. For example, Warburton and Cooktown were estimated, using this method, to have had more CDEP scheme workers than indicated they were employed in the last two censuses (Gray and Auld 2000). While suitable adjustments were made in Gray and Auld (2000), it is important that one's measure of employment need is not dominated by the 'noise' introduced by the assumptions made in estimating the indicator used.

The advent of the new administrative computer program, the 'CDEP manager' has improved the quality of data for each region. Therefore future estimates of CDEP and non-CDEP scheme employment by region is likely to be more accurate than was previously possible. The 'CDEP manager' includes information on number of hours worked and income/wages received and therefore should allow analysts to distinguish types of work which provide substantially more command over resources than can be achieved in the welfare system.

The third issue about data revolves around the dated nature of much of it. The available labour force data is between four and six years old (viz., the 1996 Census and NATSIS). However, given Indigenous labour market disadvantage is slow to change over time (Hunter and Gray 1998), the relative measures of employment need are also likely to be reasonably stable.

In summary, the most substantive sticking point to measuring relative Indigenous need is whether one can convincingly measure the number of Indigenous people who want to work by ATSI region. Notwithstanding, the method outlined above, it is probable that the assumption used may drive the resulting estimates of relative employment need. Whatever, the CGC decides to do, sensitivity analysis is of paramount importance to ensure that the allocation of discouraged workers accurately reflects local labour supply conditions. If the results were very sensitive to a change in the assumptions on labour supply (for example, to using labour force participation rates to proxy the desire to work), then you would have to question how robust the analysis is. Given the conceptual differences underpinning the possible assumptions, one should be rather surprised if the indicators of employment need did not vary after such a change.

In the absence of a better model of Indigenous labour supply behaviour, the obvious temptation is to take the 1996 participation rates as our best estimates of labour supply. This submission is an attempt to alert the commission to the limitations of this approach.

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