



Growth Challenge

For nearly a decade, the Melbourne Institute and *The Australian* newspaper have been jointly hosting a series of Economic and Social Outlook conferences designed to bring together leading policy makers, politicians, academics, community service organisations, and business leaders to discuss the priorities for economic and social reform in Australia. The most recent conference, 'Growth Challenge: Riding the Resources Boom to Lasting Prosperity', was convened on 30 June and 1 July 2011 to discuss these issues. The conference was officially opened by the Premier of Victoria, Ted Baillieu MP, and began by setting the stage for the priorities in managing the growth potential of the mining boom. Other key themes and highlights from the conference are outlined below.

Climate Change and Energy Security

Martin Ferguson MP discussed the issue of energy security against the backdrop of population growth and increasing demand from China. Senator Christine Milne highlighted the urgency of action on climate change while Professor Ross Garnaut emphasised some key points from his recent report, in particular that alternative arrangements would increase costs without increasing revenue.

Three Economic Challenges

In his lunch address, the Federal Treasurer, Wayne Swan MP, identified three major challenges facing the Australian economy: (i) the dramatic shift in global economic power from the industrialised West to the developing East; (ii) delinking economic growth and carbon emissions, which requires putting a price on carbon; and (iii) the demographic shift to a much older population, which requires workforce reforms designed to encourage people to work for longer.

Tackling Disadvantage amid the Boom

Jenny Macklin MP focused on the increasing concentration of poverty in society and the often terminal nature of disability pensions. Peter Davidson spoke about 'New Start Allowances', which have many re-employment disincentives, while Professor Ian McDonald addressed

Growth Challenge

Page 1

Professor Moshe Justman Joins the Melbourne Institute

Page 3

Done Well, National Broadband Network Can Boost Economy

Page 4

The Impact of Fertility on Mothers' Labour Supply in Australia

Page 5

Downing Lecture, 2011

Page 6

HILDA Survey Conference

Page 6

What Are Consumers Telling Us?

Page 7

Setting Up Financial Incentives for GPs

Page 8

Growth Challenge

(continued)



Tony Abbott MP



Professor Deborah Cobb-Clark

the issue of the short- and long-run unemployment rate in a wellbeing/happiness framework and examined the effect of a disability support payment.

Funding the Education Revolution

Professor Glyn Davis stated that reforms to allow universities to offer more places to domestic students are being undermined by a lack of funding. Bill Daniels argued that existing SES school funding arrangements were well targeted and that the current review should take into account cost-savings from publicly funding students in non-government schools. Associate Professor Chris Ryan tempered expectations of the review and proposed that the best outcome would be a clear framework for funding private schools.

Big Australia or Not?

Michael Stuchbury initiated the round-table discussion of population issues by putting the challenges surrounding population policy in the context of the swings in the Government's stance on population issues. In the lively discussion that followed, Tony Burke MP, Scott Morrison MP, Bob Carr and Jennifer Westacott reflected a range of perspectives on the population challenge facing Australia.

The Need for Reform

Treasury Secretary Dr Martin Parkinson gave an after-dinner speech in which he highlighted the pressing need for a new wave of reform in order to boost productivity and maintain Australian living standards.

Tax Reform Waiting to Happen

Bill Shorten MP gave an overview of reforms that he believes worth considering; Joe Hockey MP argued that competition between the States is essential for productivity reform; and Greg Smith and Yasser El-Ansary had broader, more long-term views on the issue.

Funding an Older Australia

Dr David Gruen outlined the options and impacts of compulsory superannuation and national saving; Henry Ergas focused on funding aged care through compulsory long-term insurance; and David Cox illustrated issues with new superannuation products and showed that for



A panel discussion



Wayne Swan MP

an average individual there was a 60 per cent chance of income running out before death.

Getting Water Policy Right

Dr Wendy Craik presented preliminary findings from the Productivity Commission (PC) inquiry into the urban water sector. Dr Kerry Schott expressed some dissatisfaction with the PC's draft report, arguing that, at least in the case of Sydney Water, many of the PC's recommendations had already been implemented. Dr Michael Porter argued that the efficiency of Australia's water use was possibly the 'least worst' in the world.

How Disadvantaged Are Women in the Workforce?

Elizabeth Broderick outlined why discrimination in the workforce is important. Professor Deborah Cobb-Clark indicated that there is no relation between the wage gap in the occupation in which a woman works and whether the woman reports the presence of workplace discrimination. Dr Jenny Gordon showed that some particularly low-wage, female-dominated, social service sectors have been growing recently while relative wages in these sectors have been decreasing, causing a wider gap between genders.

Economic Case against a Carbon Tax

During his lunch address, Tony Abbott MP argued that unilateral imposition of a universal carbon tax would place Australia at a competitive disadvantage compared with other countries that do not impose a carbon price.

Debating the Broadband Revolution

Rob Oakeshott MP, Malcolm Turnbull MP and John Stanton agreed that Australians should have access to fast broadband. A major point of disagreement centred on whether this is best achieved via the cheaper Fibre-to-the-Node (and Fixed Wireless) technology or the more expensive Fibre-to-the-Home technology.

Health Care Reform and Beyond

Rohan Mead argued that there is a workforce challenge in the broader community due to an ageing population, mirrored in the health workforce. Related to this were Professor Tony Scott's comments regarding pay for performance where good outcomes are rewarded.

Adam Powick stressed that technology is crucial to keep Australia's health system of high quality.

Finance after the Crisis

Michael Ullmer noted that emerging from the financial crisis the banking sector in Australia has become more concentrated. Professor Ian Harper commented that such regulations, designed to enhance the stability of the global financial system, would result in higher cost of finance, while Professor Kevin Davis discussed the implications of the recent crisis for the field of finance theory.

Political Options for a Boom Economy

Paul Kelly chaired the panel which included Senator Penny Wong, Andrew Robb MP, Professor Ross Garnaut and Arthur Sinodinos. The session's theme was how the Federal and State governments can break through the policy barriers to meet the growth challenge.

The recordings and presentations from the Economic and Social Outlook Conference are available at <www.melbourneinstitute.com/miaesr/events/conferences/conferences_outlook2011_fullprogram.html>.

Professor Moshe Justman Joins the Melbourne Institute

Professor Moshe Justman, an internationally renowned education economist, was appointed in 2011 as a fractional Professorial Research Fellow to be a member of the new Economics of Education and Child Development research program.



Professor Moshe Justman

Professor Justman is Professor of Economics and former Dean of Humanities and Social Sciences at Ben Gurion University in Israel. He holds a BSc in mathematics and statistics and an MSc in mathematics from the Hebrew University (1972, 1974)

and a PhD in business economics from Harvard University (1982), between which he worked as a systems analyst. He is also a Senior Fellow at the Van Leer Jerusalem Institute, where he led a research group on measurement in the social sciences and participated in its Program on Economy and Society. He chaired the Committee on Israel's System of Education Indicators, for the Israel Academy of Sciences, and has served as a consultant to Israel's Ministries of Education, Science, Industry and Trade, Labor and Welfare, and the Interior. He has held visiting positions at Carnegie-Mellon University, Renmin University (Beijing), Case Western Reserve University and Autònoma University of Barcelona.

His research on the economics of education has focused on its relation to equal opportunity, growth and income distribution; education in a multicultural society; popular support for public education; and measurement in education. Previous research focused on innovation and technology, and regional development and migration. His research has appeared in leading international academic journals, including *American Economic Review*, *Review of Economics and Statistics*, *Review of Economic Studies*, *Journal of the European Economic Association*, *Journal of Public Economics*, *World Development* and *Research Policy*. He has also co-authored a book, *The Political Economy of Education* (MIT Press, 2005), and edited several collective volumes.

In August 2010, Professor Justman visited the Melbourne Institute and participated in the drafting of the tender to the Department of Education and Early Childhood Development (DEECD). At that time, initial discussions took place about what involvement he could have with the Melbourne Institute should the tender to DEECD be successful.

Professor Justman's extensive experience in academic development and administration and in supervising post-graduate research will contribute to the establishment of the new Economics of Education and Child Development research program. A key responsibility for Professor Justman will be to provide additional academic leadership and mentoring to a number of junior staff who have been hired to undertake research for the DEECD partnership. He is also currently working on additional proposals for further projects to be completed under the DEECD partnership, which will make use of extensive data from standardised tests to gauge school performance in various dimensions and identify factors that contribute to higher achievement.

Done Well, National Broadband Network Can Boost Economy

A national fibre-to-the-home broadband network could deliver big economic benefits.

Rigorous estimates of the benefits from improved telecommunications are rare. However, a paper titled 'Broadband Infrastructure and Economic Growth' was recently published by *The Economic Journal*, the leading economics journal in the United Kingdom.

The paper presented results of an international study involving 25 Organisation for Economic Co-operation and Development (OECD) countries and calculated the effect on economic growth of the rollout of broadband infrastructure since 1996. The study found that a 10 percentage point increase in broadband penetration, from say 40 to 50 per cent of households, would raise Australian gross domestic product (GDP) growth by about \$12 billion to \$19 billion a year.

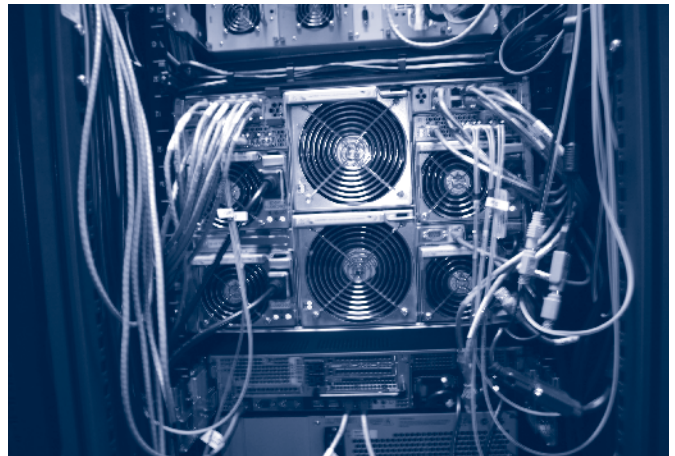
Improved communications lead to ongoing improvements in GDP, rather than one-off increases, because broadband is considered a 'general purpose technology' (GPT). GPT technologies like the internet and electricity create benefits because they underpin other technologies and multiply their value.

They do this by accelerating the distribution of ideas and information, promoting innovation and competition and aiding the introduction of new products, processes and activities. Broadband is a conduit for decentralised decisions and investments and increases the capacity of business-to-business networks.

We can apply these findings to Australia's national broadband network (NBN). The NBN will provide enormous potential for people in regional and remote locations to access a large suite of facilities and services including educational, commercial, social, entertainment, health and other opportunities.

In the past, Australia's great distances have meant that people were largely restricted to the facilities and services available in their immediate locale. For those living in larger population centres, this was not a problem. The NBN will mean that many people can access a diverse range of services previously not available to them. The results in the study show that apart from improving their quality of life, this availability will also stimulate growth in general economic activity.

OECD data put Australia's broadband penetration at 25 subscribers per 100 inhabitants in 2008. The NBN will roughly double this. In the medium term, this extra



growth will be available whether or not the NBN is based upon fibre-to-the-home (FTTH), fibre-to-the-node (FTTN) or fixed wireless access (FWA). All three technologies can provide 256 Kilobytes per second, the speed threshold used to define 'broadband access' in the paper.

Like all empirical work in economics, the study is based on what has happened. Looking to the future, we want to extrapolate from the effects of previous expansions in communication infrastructure to what could happen with a FTTH-based NBN as compared with one based on FTTN or FWA.

In the longer term, we would expect the same kind of stimulus will occur as the economy migrates to even higher download speeds (say greater than 20 Megabytes rather than 256 Kilobytes). Then FTTN and FWA would face a problem. At such high access speeds both FTTN and FWA are limited by the laws of physics. This means that only FTTH can provide general purpose technology benefits.

GPTs can transform household life and the ways in which firms do business, and can accelerate per capita growth over the long run. In contrast, FWA and FTTN are unlikely to provide global access to the larger bandwidths that will almost certainly be required in the coming decades.

This article is based on an opinion piece by Professor Beth Webster (Melbourne Institute) and Dr Kerry Hinton (Centre for Energy Efficiency, The University of Melbourne) that appeared in the Australian Financial Review on 5 July 2011 and was also quoted by Senator Stephen Conroy (Minister for Broadband, Communications and the Digital Economy) in the Senate on the same day.

The Impact of Fertility on Mothers' Labour Supply in Australia

Women's labour supply behaviour has changed dramatically since the 1970s in developed countries.

Governments' policies in regard to female participation in the labour market have also deeply evolved and now aim at helping women to reconcile work and family life. In this context, the question of the impact of the number of children on mothers' labour supply is essential.

A recent Working Paper by Dr Julie Moschion estimates the impact of fertility on mothers' labour supply in Australia, using exogenous variation in family size generated by twin births and the gender mix of siblings. Relative to having only one child, having more than one child decreases labour market participation by 15.5 percentage points and hours worked by around 6 hours per week. Relative to having two children, having more than two children reduces labour market participation by between 12 and 20 percentage points and hours worked by between 3 and 8 hours per week, depending on the instrument used. Interestingly, fathers also reduce both their labour market participation (by 10 percentage points) and their number of hours worked per week (by 4 hours) when having more than one child. Implemented in other countries (United States, Canada, Argentina, Mexico, France, Sweden, Great Britain and Chile), the same methodology yields impacts of fertility on mothers' labour market participation ranging from more than -20 percentage points in France to no effect in Sweden.

With low supplies of formal child care, Anglo-Saxon and Latin American countries unsurprisingly display negative impacts of fertility on mothers' labour supply (between

-6 and -20 percentage points). Even without financial support (through parental leave especially), mothers leave the labour market as they have more children, probably because without extensive and low-cost child care, they cannot reconcile work and family life. In Australia, where the net childcare price is lower than in other Anglo-Saxon countries, the presence of rationing (in the number of places and/or hours of care) may account for the relatively large impact of fertility.

France and Sweden have widespread and low-cost child care but very different impacts of fertility on mothers' labour supply. This difference is related to differences in financial incentives. France offers a very long paid parental leave (three years at most), and until a reform in 1994, only mothers with at least three children were eligible (which explains the very strong impact of third births on mothers' labour supply in the early 1990s). In contrast, the Swedish paid parental leave is shorter and better compensated, and all parents are eligible (regardless of the number of children). In addition, while the French income tax system favours single-earner couples, the Swedish one explicitly favours dual-earner families.

Overall, the provision of child care appears as a first condition to help mothers reconcile work and family life by systematically reducing the negative impact of fertility on mothers' labour market participation. It is, however, insufficient and, where the provision of child care is extended, mothers' labour supply behaviour is driven by other devices and especially by paid parental leave.

Working Paper 17/11 can be downloaded from the Melbourne Institute website. For more information, contact Dr Julie Moschion on (03) 9035 4784 or by email <moschion@unimelb.edu.au>.

Michelle McIsaac: PhD Student Profile

Michelle McIsaac joined the Health Economics team as a PhD student with the Medicine in Australia: Balancing Employment and Life (MABEL) project in 2009. Supervised by Professor Tony Scott and Associate Professor Guyonne Kalb, her research pertains to the geographic distribution and mobility of general practitioners in Australia. Michelle enjoys the multidisciplinary aspect of her studies and has taken graduate courses in Epidemiology and Analytic Methods at the School of Population Health. Michelle has just returned from Canada after having received an Overseas Research Experience Scholarship to be a visiting scholar at the University of British Columbia.

Michelle has presented her thesis work at the Primary Health Care Research Conference (Darwin, 2010); Emerging Health Policy Research Conference (Sydney, 2011); Annual Workshop on Health Economics (Melbourne, 2011); International Health Economics Association Conference (Toronto, 2011); and the Centre for Health Services and Policy Research seminar series (Vancouver, 2011).



Michelle McIsaac and Professor Tony Scott

Downing Lecture, 2011

Professor Richard Blundell presented this year's Downing lecture on 20 July. He holds the David Ricardo Chair of Political Economy at University College London. Since 1986 he has been Research Director of the Institute for Fiscal Studies (IFS), where he is also Director of the ESRC Centre for the Microeconomic Analysis of Public Policy.

Professor Blundell has made an enormous contribution to the economics profession. He was President of the European Economic Association in 2004, President of the Econometric Society in 2006, and he is currently President of the Royal Economic Society. In 2006, he was awarded the CBE in the Queen's New Year Honours list for his services to Economics and Social Science. He is a Fellow of the Econometric Society and of the British Academy. He was co-editor of *Econometrica* from 1997 to 2001 and co-editor of the *Journal of Econometrics* from 1992 to 1997.

The tax and transfer system plays a critical role in all modern economies. How governments raise these taxes and then redistribute the benefits back to the population has enormous implications for economic efficiency, household decision making, living standards, inequality and equity more generally.

Professor Blundell drew on his research on optimal tax policy for this year's Downing lecture, 'Empirical Evidence and Tax Reform: Lessons from the Mirrlees Review'. The lecture focused on the reform of the taxation of earnings, savings and consumption in the United Kingdom. Drawing on recommendations of the recent Mirrlees Review: Tax Reform for the 21st Century which was carried out under the auspices of the IFS, he provided a recommendation for the overall direction of tax reform for open economies in the 21st century.

Professor Blundell's contribution to the policy debate and evidence base on how household labour supply responds to taxation and the optimal taxation of low-income families — in particular — provides the foundation for the design of tax policies that can improve economic efficiency and promote social justice in the tax and transfer system.

HILDA Survey 10th Anniversary Conference

The 2011 HILDA Survey Research Conference was held on 14 and 15 July at the University of Melbourne. It was attended by over 170 delegates from a wide range of fields (both academia and government), institutions and disciplines. Thirty-six papers were presented, with all reporting findings from analyses of data from the HILDA Survey. The topics covered were wide-ranging, reflecting the breadth of coverage of the HILDA Survey. Nevertheless, key themes pursued this year included: (i) the labour market engagement of older workers and the transition into retirement; (ii) the consequences of geo-spatial factors and mobility for labour market outcomes; and (iii) influences on mental health and other indicators of subjective well-being.

The conference also attracted two internationally renowned keynote speakers:

- Professor Richard Blundell CBE (Research Director, The Institute for Fiscal Studies, and University College London, United Kingdom) who addressed two key questions: (i) How well do families insure themselves against adverse labour income shocks? and (ii) What mechanisms are used? He then showed how panel data on the dynamics of labour supply, earnings, income, assets and consumption can be used to answer these questions.
- Professor Heather Laurie MBE (Director, Institute for Social and Economic Research, University of Essex, United Kingdom) who spoke about methodological challenges and innovations in longitudinal studies.

Finally, at the conference dinner, the input of a number of persons with close to continuous service over the first 10 years of the HILDA Survey was recognised.

The papers from the conference are available from the Melbourne Institute's website at www.melbourneinstitute.com/miaesr/events/conferences/conferences_HILDA_2011_program.html.



One of the medals presented to recognise 10 years of service

What Are Consumers Telling Us?

The Melbourne Institute produces a number of indexes based on a monthly survey of consumers. What do these indexes suggest for the rest of 2011?

Will Growth Be Strong?

Consumption is the biggest component of gross domestic product. Year-end growth for household consumption was 3.0 per cent in December 2010 and 3.4 per cent in March 2011. The Consumer Sentiment Index (CSI), a leading indicator of change in consumer behaviour, fell by 2.6 per cent in June, 8.3 per cent in July and 3.5 per cent in August. This suggests that growth is likely to remain weak. (See Figure 1.)

Whither the Unemployment Rate?

The unemployment rate rose to 5.1 per cent in July 2011, after remaining steady at 4.9 per cent for three months. The Westpac – Melbourne Institute Unemployment Expectations Index (UEX) jumped by 20.9 per cent in June, and increased further by 3.3 per cent in July and 2.0 per cent in August. The Index signals changes, ahead of official labour statistics, and it is indicating lacklustre labour market conditions. (See Figure 2.)

Is Inflation on the Rise?

In the 12 months to June 2011, the Australian Bureau of Statistics' Consumer Price Index rose by 3.6 per cent, compared with a rise of 3.3 per cent in the 12 months to March 2011. According to survey data about consumer inflationary expectations (CIE), the median expected inflation rate was 3.3 per cent in June and 3.4 per cent in July, but it fell to 2.7 per cent in August. The expected and actual inflation rates are correlated, and inflationary pressures appear to be tempered by weak demand and low employment growth. (See Figure 3.)

For more information, see Monthly Bulletin of Economic Trends, prepared by the Applied Macroeconomics team (Professor Guay Lim, Dr Michael Chua, Dr Edda Claus and Dr Viet Nyugen). Visit the website at <www.melbourneinstitute.com/miaesr/publications/indicators/bulletin.html>.

Figure 1: CSI and Consumption (annual growth rates, per cent)

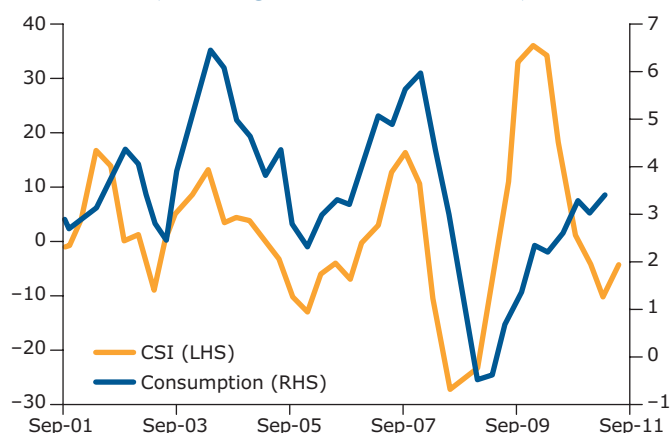


Figure 2: UEX and Unemployed Persons (annual change, per cent)

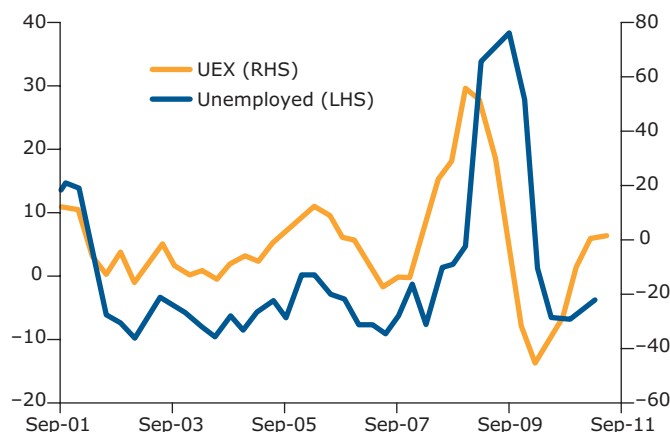
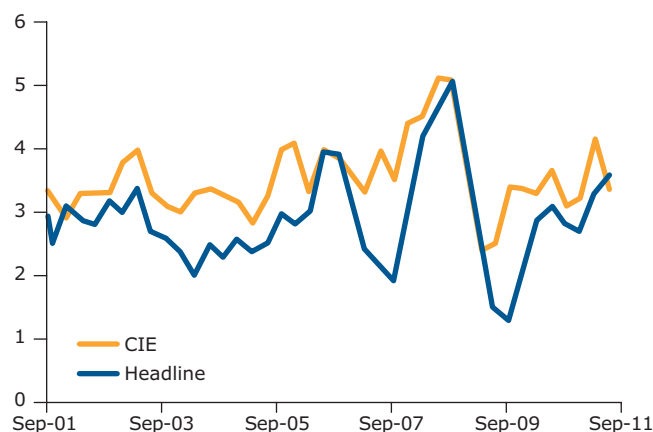


Figure 3: CIE (median rate, per cent) and Headline Inflation (year-end rate, per cent)



Recent Melbourne Institute Working Papers

- 15/11 'Regional Indexes of Activity: Combining the Old with the New' *Edda Claus, Chew Lian Chua and G. C. Lim*
- 16/11 'Temporary Contract and Monopsony Power in the UK Labour Market' *Domenico Tabasso*
- 17/11 'The Impact on Fertility of Mothers' Labour Supply in Australia: Evidence from Exogenous Variation in Family Size' *Julie Moschion*
- 18/11 'Bias in the Legal Profession: Self-Assessed versus Statistical Measures of Discrimination' *Heather Antecol, Deborah A. Cobb-Clark and Eric Helland*
- 19/11 'External Ventures: Why Firms Don't Develop All Their Inventions In-house' *Russell Thomson and Elizabeth Webster*
- 20/11 'Global Imbalances and the Paradox of Thrift' *W. Max Corden*
- 21/11 'The Stability of Big Five Personality Traits' *Deborah Cobb-Clark and Stefanie Schurer*
- 22/11 'Demand for Hospital Care and Private Health Insurance in a Mixed Public–Private System: Empirical Evidence Using a Simultaneous Equation Modeling Approach' *Terence Chai Cheng and Farshid Vahid*

Working Papers can be downloaded for free from <www.melbourneinstitute.com/miaesr/publications/default.html>. If you would like to receive an email notification when new Working Papers become available, contact the Melbourne Institute at <melb-inst@unimelb.edu.au>.

Setting Up Financial Incentives for GPs

There is growing use of financial incentives in many countries to reward primary care practitioners who improve the quality of their services. After reviewing all available data in a Cochrane Systematic Review, a team of researchers found insufficient evidence to either support or not support the practice. They conclude that people need to proceed with caution before setting up an incentive scheme and think carefully about the way it is designed. There are hundreds of schemes in the United States, as well as in the United Kingdom, Australia and other countries where the amount doctors get paid to provide services has been arranged deliberately to try and change the way they work. The idea is to give a financial incentive that will hopefully encourage efficient and effective provision of care. The problem is that there is always the possibility that these incentive schemes may not produce any effect, or worse still have negative outcomes. For example, financial incentives applied to one disease area may 'work', but at the cost of doctors spending less time with other disease areas.

Led by Professor Tony Scott of the Melbourne Institute, the researchers looked for studies that had assessed how well such incentive schemes worked in practice. Despite the popularity of these schemes, they could only find seven appropriate studies, looking at very different schemes. "Poor study design led to substantial risk of bias in most studies. In particular, none of the studies addressed the ability of primary care physicians to opt into or out of the incentive scheme or health plan," said Professor Scott. The seven studies looked at interventions covering a wide variety of health-related issues including smoking cessation, assessment of the quality of care, cervical screening, mammography screening, diabetes, childhood immunisation, chlamydia screening, and appropriate asthma medication. "There is currently little rigorous evidence about whether financial incentives do improve the quality of primary health care, or of whether such an approach is cost-effective relative to other ways of improving the quality of care ... There are ways of conducting high quality research that could find solid answers, and it is really important that we start collecting data that will address this critical issue," said Professor Scott.

For more details, see the full review: Scott, A., Sivey, P., Ait Ouakrim, D., Willenberg, L., Naccarella, L., Furler, J. and Young, D., 'The effect of financial incentives on the quality of health care provided by primary care physicians', Cochrane Database of Systematic Reviews 2011, Issue 4. Art. No.: CD008451. DOI: 10.1002/14651858.CD008451.

Melbourne Institute News

Views expressed by the contributors to *Melbourne Institute News* are not necessarily endorsed or approved by the Melbourne Institute. Neither the Melbourne Institute nor the Editor of *Melbourne Institute News* accepts any responsibility for the content or accuracy of information contained in this publication. Editor: Rachel Derham tel: (03) 8344 2158, fax: (03) 8344 2111, email: r.derham@unimelb.edu.au. Sub-Editor: Nellie Lentini. Contributors: Professor Deborah Cobb-Clark, Professor Moshe Justman, Professor Guay Lim, Michelle McIsaac, Dr Julie Moschion, Professor Tony Scott, Professor Beth Webster, Professor Mark Wooden. Photos by: Casamento Photography (pp. 1–2, conference photos); Les O'Rourke Photography (p. 5, McIsaac and Scott).