
Special Session
Abstracts

Ageing Workforce: What are the big questions?

(An initiative of the ARC/NHMRC Research Network in Ageing Well)

Monday 10.35am – 12.15pm

Chair: Sue Richardson

Director, National Institute of Labour Studies, Flinders University

Research Questions on Ageing. A Panel Discussion

Bob Gregory

Economics Program, Research School of Social Sciences, Australian National University

Garry Barrett

Australian School of Business, University of New South Wales

Lisa Magnani

Australian School of Business, University of New South Wales

Martin O'Brien

School of Economics and Information Systems, University of Wollongong

Bruce Felmingham

School of Economics and Finance, University of Tasmania

Each of the panel will speak on what they think the pressing and researchable questions are regarding the ageing workforce that economists should focus on. The panel, with contributions from the floor, will attempt to come to an agreement as to what are the three most pressing and researchable questions and how to approach them.

Urban water pricing and reform

Monday 10.35am – 12.15pm

Chair: Hugh Sibly

Senior Lecturer, School of Economics and Finance, University of Tasmania

Welfare costs of household water restrictions

Quentin Grafton

Research Director and Director EDGES, Crawford School of Economics and Government, Australian National University

Using household level data on water tank purchases and water yields, estimates are provided as to the welfare costs associated with urban water restrictions in five metropolitan centres in Australia.

Households' willingness to pay to avoid drought water restrictions: A case study of Perth, WA

Sorada Tapsuwan De Herrera

Policy and Economic Research Unit, CSIRO Land and Water, CSIRO

The development of new water sources to meet growing urban demand rarely takes explicit account of consumer preferences for the attributes of reliability, which affects the supply buffer required and the timing of augmentation; nor the non-market attributes of different source development options. This study examined consumer preferences for source development options and for avoiding outdoor water restrictions using choice experiments (CE). The study found statistical evidence that if households were willing to move away from the status quo (a scenario in which they would have to endure severe water restrictions) they would be willing to pay 22% more on their water usage bill to be able to use their sprinklers up to 3 days a week. Additionally, on average, households would pay a higher water bill of approximately 50% more to finance a new source of supply instead of enduring severe water restrictions.

Dealing with the perceived equity embodied in inclining block water tariffs: Some considerations in the implementation of demograts

Lin Crase

School of Business, La Trobe University

The design of urban water tariffs is circumscribed by a number of often conflicting objectives including maximising the efficient allocation of the resource, the provision of sufficient and stable revenue for water businesses, affordability, equity and the perception of fairness. Recent drought conditions have also precipitated interest in price as a conservation signal. In this context, most Australian Water Authorities rely on some form of inclining block tariff to achieve the objectives, but this pricing system has been criticised on both efficiency and equity grounds. This paper examines current urban water pricing arrangements, and raises some questions about the framework for judging the efficiency of a particular pricing regime. Alternatives to the current arrangements are also scrutinised.

Introducing competition into urban water networks - virtual water suppliers and enhanced third party access

Richard Tooth

ANU College of Law, Australian National University

Hugh Sibly

School of Economics and Finance, University of Tasmania

This paper discusses an institutional approach to bring market competition to the provision of bulk water supply in urban settings. The proposal involves periodically allocation (e.g. by auction) of existing water stock held in urban reservoirs to virtual water suppliers (VWS) who then compete in the provision of bulk water. The approach aims to address concerns over inefficient pricing under the current arrangement. Competition is also improved by enhanced third party access, which would give appropriate incentives for further investment in urban water infrastructure. The paper discusses many of the implications and design considerations.

Labour market dynamics research and policy

(Sponsored by Department of Employment and Workplace Relations)

Monday 1.15pm – 2.55pm

Chair: Chris Foster

Principal Advisor, Department of Employment and Workplace Relations

Why is labour market dynamic research of interest to policy makers?

Peter Boxall

AO, Secretary, Department of Employment and Workplace Relations

The Secretary of the Department of Employment and Workplace Relations will discuss the relationship between labour market dynamics research and policy from a policy advisor's perspective.

Evaluating policies to foster human capital investment and labour supply: The key role of dynamics

Michael Keane

ARC Federation Fellow, Faculty of Business, University of Technology Sydney

Labour market "dynamics" can mean several things, such as movements of workers in and out of employment, effects of past choices on current preferences (e.g., habit, persistence), etc. I will focus on one particular meaning, which is how forward looking people may react to policy changes that will only affect them in the future. For example, a person deciding whether to attend college may be influenced by a policy that subsidises wages of high school type labour. Failure to account for such dynamic effects can lead to misleading predictions of the impact of many types of policy interventions. I'll give several examples of such cases where dynamics may matter.

Job and worker flows in Australia

Nick Carroll

Senior Economist, Department of Employment and Workplace Relations

The movement of workers from one labour market state or job to another, often referred to as worker flows, is one of the striking features of the labour market. Worker flows play a critical role in market economies because they allow for and promote allocative efficiency by shuffling workers to society's highest-value. This paper generates statistics on the level of job to job flows relative to other worker flows in Australia. The key finding from this paper is that job to job flows are large (they make up over half of all accessions and separations) and appear to be primarily employee-initiated. The results in the paper highlight the degree to which there is a high level of dynamism in the labour market and that for most people there is a smooth transition between jobs.

What are the policy implications from labour market dynamics research? - A Panel Discussion

Peter Boxall (DEWR)

Michael Keane (UTS)

Chris Pissarides (London School of Economics)

Steven Kennedy (Australian Treasury)

The panel members will discuss what are the key lessons to be learnt from research into labour market dynamics and highlight the areas for future research and policy focus.

Economics of education and the research of the CEE

Monday 1.15pm – 2.55pm

Chair: Lorraine Dearden

Director of the Centre for Early Years and Education Research (CEYER) and Deputy Director Centre for the Economics of Education, (CEE) at the Institute for Fiscal Studies (UK) and Professor of Economics and Social Statistics, Institute of Education, University of London (UK)

Recent methodological developments in the economics of education

Richard Blundell

Professor of Economics, University College London (UK) and Research Director, Institute for Fiscal Studies (UK)

Dimensions of disadvantage and the educational outcomes of Australian youth

Chris Ryan

Director, Social Policy Evaluation, Analysis and Research Centre (SPEAR), Research School of Social Sciences, Australian National University

Education subsidies and school drop-out rates

Lorraine Dearden

Director of the Centre for Early Years and Education Research (CEYER) and Deputy Director Centre for the Economics of Education, (CEE) at the Institute for Fiscal Studies (UK) and Professor of Economics and Social Statistics, Institute of Education, University of London (UK)

Skilled labour movements

Tuesday 10:35am – 12:15pm

Chair: Massimiliano Tani

Senior Lecturer, Department of Economics, Macquarie University and Research Fellow of the Institute for the Study of Labour (IZA)

Productivity and deferring leisure among temporary workers

Uri Benzion

Department of Economics, University of Be'er Sheva (Israel) and IZA (Germany)

This presentation considers the situation under which workers are willing to invest more effort (or/and time) at the workplace and by doing so increase productivity and decrease leisure for the present. Our model is presented in terms of temporary workers who go to work in a host country for a certain period of time. The temporary workers increase their efforts and the time invested at the workplace while decreasing their leisure. On their return home, they increase the consumption of leisure. We show conditions under which workers would be willing to defer their leisure and increase production at this point.

Business visits and productivity in Australia

Massimiliano Tani

Department of Economics, Macquarie University and IZA (Germany)

This presentation studies the contribution of short-term movements of skilled labour on productivity across the main sectors of the Australian economy. Short-term flows, like international business visits, are technically 'outside' the definition of migration. Yet, empirical evidence suggests that they occur in large part as a form of knowledge exchange between a country's skilled labour and skilled workers living elsewhere. The effect of such flows on Australia's industrial productivity is studied using data from the ABS and the Department of Immigration for the period 1991-2005.

Brain drain' or 'brain circulation': Evidence from OECD's international migration and R&D spillovers

Thanh Quang Le

School of Economics, University of Queensland

This presentation empirically investigates whether labour mobility can transfer technology across borders based on panel cointegration method. Estimates of specifications on a cross-section of 19 OECD countries during 1980-1990 lend strong support to this thesis. Data indicate that international labour movement transfers technology across borders in both directions: from donor countries to host countries and vice versa. This suggests that migration is more likely to create a 'brain circulation' than a 'brain drain'. In addition, human capital has a significant impact on R&D diffusion process as it enhances a country's capacity to learn from a foreign technology base.

Occupational transition and country-of-origin effects in the early stage occupational assimilation of immigrants: Some evidence from Australia

Xueyan Zhao

Department of Econometrics and Business Statistics and Centre for Health Economics, Monash University

Weiping Wu

Department of Econometrics and Business Statistics, Monash University

Mark Harris

Department of Econometrics and Business Statistics, Monash University

We examine the occupational attainment of recent immigrants in Australia in order to study their early stage assimilation into the labour market. Human capital endowments and country-of-origin effects are examined for six occupational groups. We also study transitions across occupations from source to host country. The empirical approach utilises the Ordered Generalised Extreme Value model which embodies differing utility functions across occupational outcomes, as well as accounting for any skill ordering in these outcomes. The results suggest that the transferability of knowledge and skills is affected by cultural and social backgrounds, and that non-Western professional immigrants are disproportionately channelled into inferior jobs such as labourer post migration. The investigation of the country-of-origin effect on the skilled migrants' occupational transition process is especially apt in the context of skill shortages in Australia. Other factors being controlled, only 38% ex-tradesmen will remain in the profession and 33% will downshift to labourer or unemployed.

Factors influencing transnational career choices for international and domestic economics and commerce students: A working paper

Marie Kelly

Faculty of Medicine, Dentistry and Health Sciences, University of Melbourne

The current period is characterized by the unprecedented global mobility of people with skills. By 2005, 1 million Australians were based overseas, with growing proportions employed in transnational companies, and qualified in the fields of Economics and Commerce (most notably marketing, finance and management). In addition to these Australia-born expatriates, substantial numbers of former international students who have qualified in these disciplines in Australia have subsequently sought global work (within their own and other countries). Given the significance of this trend, this paper pre-emptively examines some of the factors determining Economics and Commerce students' career choices (while enrolled), followed by the lived experience two years and five years out of the Economics and Commerce Alumni in five field sites; London, New York, Singapore, Hong Kong and Shanghai. This paper also investigates the paucity of outcomes literature in the field of returnee international graduates and qualitative studies of the Australia-born graduate diaspora.

Emissions trading in Australia

Tuesday 10:35am – 12:15pm

Chair: Bob Rutherford

Deputy Secretary, Policy Division, Tasmanian Department of Premier and Cabinet

Proposals for the National Emissions Trading Network

Anthea Harris

Project leader, National Emissions Trading Taskforce

Bob Rutherford

Deputy Secretary, Policy Division, Tasmanian Department of Premier and Cabinet

The current proposals for the National Emissions Trading System (NETS) will be outlined and questions from the floor discussed and answered.

Consumption and taxation of licit and illicit drugs

Tuesday 1:15pm – 2:55pm

Chair: Ken Clements

Director, Economic Research Centre, UWA Business School, University of Western Australia

Policies for reducing the costs of cigarette smoking

Harry Clarke

Department of Economics and Finance, La Trobe University

Louise Collis

Department of Economics and Finance, La Trobe University

Policies for regulating tobacco smoking in Australia are examined. Cigarette management policies need to account for the addictive nature of nicotine, information failures and the existence of externalities and internalities. The external costs of smoking are low relative to internalised private costs. In so far as externalities do arise they can be addressed by taxes and by direct controls on smoking. If internalised health costs are targeted then taxes and restrictions can be usefully assessed in terms of implied health outcomes. Substitutions toward 'chop chop' and compensatory behaviour by smokers restrict the usefulness of taxes while the existence of NRTs and smokeless tobacco products enhance the case for hefty taxes on smoked tobacco. Adverse effects on low income consumers from high taxes can be offset by income transfers from high income consumers. Smoking behaviour among high income consumers can be addressed using non-price deterrence, such as bans. Policy development is complicated by the existence of distinct groups of users who react differently to incentive.

Beer, wine, and spirits just don't mix: A meta analysis of the demand for alcohol

James Fogarty

UWA Business School , University of Western Australia

The demand for alcohol literature is vast, and much conflicting information about the nature of the demand for alcoholic beverages has been published. This article presents a survey of the literature, and then uses the technique of meta-regression analysis to gain insights into the nature of the demand for wine, spirits, and beer. Unlike previous meta-studies of the demand for alcoholic beverages this study adjusts for the precision of each estimate. The analysis presented suggests elasticity estimates will be influenced by such factors as estimation technique, data frequency, and time period under consideration. Little support is found for the idea that demand for alcoholic beverages varies between countries.

Why parents worry: Initiation into cannabis use by youth and their educational attainment

Jenny Williams

Department of Economics, University of Melbourne

Jan C. van Ours

Department of Economics, Tilburg University(Netherlands) and IZA (Germany)

In this paper we investigate the extent to which initiation into cannabis use during youth affects educational attainment. In particular we focus on the relationship between the age at which initiation occurs and the probability of leaving formal education. We find that age of onset matters, with those initiating into cannabis use early in life having a much higher dropout rate than those who start later on. For boys the critical age for starting cannabis use is 17, and for girls it is 19. Initiation into cannabis use beyond the critical age has no adverse affect on educational attainment.

Marijuana and related drug consumption in Australia - some microeconometrics evidence

Xueyan Zhao

Department of Econometrics and Business Statistics and Centre for Health Economics, Monash University
Monash University

This paper presents some econometric analysis on Australian individuals' consumption of marijuana and related drugs using unit record data from the National Drug Strategy Household Survey. We investigate the effects of individual socioeconomic and demographic factors and drug prices on participation probability and levels of marijuana consumption. We use multivariate probit models to study the relationship of marijuana participation with related legal drugs tobacco and alcohol and illegal drugs heroin and cocaine, accounting for effects of both observable and unobservable personal characteristics on multi-drug consumption. An endogenous switching probit model is used to estimate the effect of marijuana decriminalisation on participation, which allows for potential endogeneity of decriminalisation and flexibility in behaviour. The estimated effect is compared with results from its three nested models (probit, endogenous bivariate probit and two-part switching models) and propensity score matching method.

Impact of demographic change on government budgets

(Sponsored by the Tasmanian Department of Treasury and Finance)

Tuesday 1:15pm – 2:55pm

Chair: Chris Lock

Director, Economic Policy Branch, Tasmanian Department of Treasury and Finance

The second intergenerational report

David Gruen

Macroeconomic Group, Australian Treasury

The presentation will provide an overview of the main findings of the Australian Government's April 2007 Second Intergenerational Report, including the long term economic and fiscal implications of an ageing population and rising public health care costs. Comparisons will be presented with the results from the first Intergenerational Report released in 2002.

Assessing the future distributional impact of population ageing and policy change: The APPSIM Model

Ann Harding

National Centre for Social and Economic Modelling (NATSEM), University of Canberra

The two Intergenerational Reports produced by the Australian Treasury have suggested that, under current policy settings, population ageing will produce intense fiscal pressures upon government in the coming four decades. With 13 Commonwealth agencies as research partners and with ARC support, NATSEM is constructing the Australian Population and Policy Simulation Model (APPSIM). APPSIM will project a one per cent sample of the Australian population forward through time, year by year, for 50 years. Once complete, the APPSIM model will become one of the suite of models available to the Commonwealth (and Australia) to guide policy responses to population ageing. It will complement the existing models used within Treasury, which provide less detailed distributional output about household level effects than APPSIM will. The APPSIM model is a dynamic population microsimulation model and international experience with this type of model is briefly described, along with its advantages and disadvantages. The presentation also covers current progress in construction of the model, the strong focus on usability by policy makers (its interface, likely output screens), and the challenges encountered to date in its construction.

Modelling the Australian Economy

Wednesday 10:35pm – 12:15pm

Chair: Mardi Dungey

Deputy-Director and Senior Research Fellow, Cambridge Endowment for Research in Finance, University of Cambridge

Exploring the role of permanent and transitory shocks in explaining the business cycle

Don Harding

Department of Economics, University of Melbourne

The RBC school emphasize the importance of jointly modelling growth and fluctuations when seeking to understand the business cycle. From that literature we learn that models must have permanent shocks to technology if they are to do a reasonable job of explaining business cycle features. However, analysis of Galí's SVAR suggests that both supply and demand shocks are required to explain business cycle features. This raises the question of whether one can explain the business cycle features with permanent and transitory supply side shocks only? Or is it necessary to have transitory shocks on the demand side of the economy to adequately explain the business cycle. In this paper I explore these questions using a RBC model in which there are both permanent and transitory shocks.

An estimated medium scale DSGE model of Australia

Jarkko Jaaskela

Economic Research Department, Reserve Bank of Australia

Kristoffer Nimark

Economic Research Department, Reserve Bank of Australia

In this paper we set up and estimate a medium scale structural model of Australia with particular attention paid to modelling long run changes in the terms of trade. The model is estimated using Bayesian methods and the priors are derived from two distinct sources: i) Direct information about the structural parameters and ii) impulse responses to monetary policy and terms of trade shocks that we argue can be identified under weak assumptions that should be robust across many classes of models.

Extending an SVAR model of the Australian economy

Mardi Dungey

Deputy-Director and Senior Research Fellow, Cambridge Endowment for Research in Finance, University of Cambridge (UK)

Adrian Pagan

School of Economics and Finance, Queensland University of Technology and Centre for Applied Macroeconomic Analysis (CAMA) Economics Program, Research School of Social Sciences, Australian National University

Dungey and Pagan present an SVAR model of the Australian economy which models macro-economic outcomes as transitory deviations from a deterministic trend. In this paper we extend that model in two directions. Firstly, we relate it to an emerging literature on DSGE modelling of small open economies. Secondly we allow for both transitory and permanent components in the series and show how this modification has an impact upon the design of macroeconomic models.

Economics of corruption

Wednesday 10:35pm – 12:15pm

Chair: Neil Campbell

Senior Lecturer, Department of Applied and International Economics, Massey University

Corruption and peak oil: Incentives for graft

Raul Barreto

School of Economics, University of Adelaide

The paper considers the implications of access to oil revenue by a state plagued by corruption. Within the context of a dynamic growth model, I consider the interaction between corruption rents and oil revenue given that oil is a depleting resource that is integral to production function. I investigate the transitional dynamics of state's decisions to be either selfless or self seeking.

Corruption, extortion, reputation, and asymmetric information

Neil Campbell

Department of Applied and International Economics, Massey University (New Zealand)

This paper develops a simple reputational model that examines the situation of where a corrupt official attempts to extort a bribe from a firm. The game, between these two players, is repeated, giving us a two-period story. In, what I describe as the 'pretending-to-be-heroic scenario', the firm (a 'soft' firm) does not pay the bribe in the first period (as well as, not paying the bribe in the second period). If it was a one period-model this firm would pay the bribe, and, if the bribe was not paid, the official would carry out her threat. However, in the two-period model, with a pooling equilibrium, both types of firms behave like 'hard' firms in the first period (not paying the bribe and complaining if the threat is carried out). Since the official knows that either type of firm will complain, she does not carry out her threat. A necessary condition for this pooling equilibrium, is that, in the second period (if the official has not discovered the firm's type) the parameters will be such, that the official will calculate that there would be an expected loss from carrying out her threat.

Studies of the effect of democracy on corruption

Shrabani Saha

Department of Applied and International Economics, Massey University (New Zealand)

This paper studies the influence of democracy on the level of corruption. In particular, does democracy necessarily reduce a country's level of corruption? The growing consensus reveals that there is an inverse correlation between democracy and corruption; the more democracy and the less corruption. This study argues that a simple 'electoral democracy' is not sufficient to reduce corruption. The role of sound democratic institutions, including an independent judiciary and an independent media along with active political participation is crucial to combat corruption. To illustrate the ideas, this study develops a simple model that focuses on the role of democratic institutions, where it assumes that the detection technology is a function of democracy. Under this assumption, the active and effective institutions lead to careful monitoring of agents, which increases the probability of detection and punishment of corrupt activities and reduces the level of corruption.

Economics, happiness and public policy

Wednesday 1:15pm – 2:55pm

Chair: Yew-Kwang Ng

Director, Centre for Increasing Returns and Economic Organisation, Department of Economics, Monash University

Happiness and wealth: Implications for public policy

Robert Cummins

School of Psychology, Deakin University

The idea that money is a proxy for happiness is deceased. In its place is a rapidly emerging understanding about the nature of the relationship between physical resources and the stable component of happiness referred to as Subjective Wellbeing (SWB). The main determinant of SWB is the genetic prescription of a 'set-point' for SWB which varies between individuals within the range of 60 – 90 points on a 0 (completely dissatisfied) to 100 (completely satisfied) scale. Thus, people normally feel positive about themselves and this positivity is maintained even in the face of mild adversity by a process called SWB homeostasis. Severe adversity, however, will defeat this system and, when that occurs, people experience the loss of positive feelings which we associate with depression. Homeostatic defence is assisted by internal and external buffers. The two major external buffers are relationships and money. In relation to the latter, the purpose of wealth, in relation to happiness, is to function as a flexible resource to assist homeostatic defence. Thus, money assists people to avoid unhappiness. My paper will outline these ideas and suggest that average population happiness could be increased by a redistribution of wealth.

Relative income, happiness and utility: An explanation for the Easterlin paradox and other puzzles

Paul Frijters

School of Economics and Finance, Queensland University of Technology

The well-known Easterlin paradox points out that average happiness has remained constant over time despite sharp rises in GNP per head. At the same time, a micro literature has typically found positive correlations between individual income and individual measures of subjective well-being. This paper suggests that these two findings are consistent with the presence of relative income terms in the utility function. Income may be evaluated relative to others (social comparison) or to oneself in the past (habituation). We review the evidence on relative income from the subjective well-being literature. We also discuss the relation (or not) between happiness and utility, and discuss some non-happiness research (behavioural, experimental, neurological) related to income comparisons. We last consider how relative income in the utility function can affect economic models of behaviour in the domains of consumption, investment, economic growth, savings, taxation, labour supply, wages and migration.

Unhappy growth

Ian McDonald

Department of Economics, University of Melbourne

In *The Challenge of Affluence*, Avner Offer argues that the failure of happiness to increase in recent decades even though incomes have risen is due to increases in a number of social and personal disorders, such as family breakdown, addiction, mental instability, crime and obesity. Offer puts forward a thesis to explain this failure. Offer's thesis is that people find it difficult to adjust to economic growth. Novel products can have delayed effects that cause social and personal problems. Because many people are myopic, they consume excessively and are then unpleasantly surprised. This paper develops a model of Offer's thesis and discusses how the difficulty of adjusting to new products will influence the socially optimal rate of economic growth. Various applications of the model are also discussed.

Happiness studies: Some policy implications

Yew-Kwang Ng

Director, Centre for Increasing Returns and Economic Organisation, Department of Economics, Monash University

Recent happiness studies by psychologists, sociologists, and economists have produced many interesting results. This has important implications, including: The need to improve happiness studies to make the results more reliable and interpersonally, intertemporally, and interculturally more comparable. The need to focus less on purely objective (including economic) variables and more on subjective well-being. In particular, the focus on GDP should be supplemented (if not replaced) by such more acceptable national success indicators as the environmentally responsible happy nation index. Welfare economics and cost-benefit analysis that are currently based on economic factors (which are in turn based on preferences) should be revised to be based on happiness or welfare. Public spending on areas important for welfare should be preferred over private consumption that is largely no longer important for long-term welfare at the social level. Public policy should put more emphasis (than suggested by existing economic analysis) on factors more important for happiness than economic production and consumption, including employment, environmental quality, equality, health, and safety. Above all, scientific advance in general and in brain stimulation and genetic engineering in particular may offer the real breakthroughs against the biological/psychological limitations on happiness.