

Foreword



Paul Kelly, The Australian

This Compendium from the Melbourne Institute: Applied Economic & Social Research could not be more relevant or timely. There is a growing recognition in Australia of the need to rediscover our commitment to quality public policy. The advent of a new federal Labor Government opens the door of opportunity, as does any change in the political cycle. The challenges are daunting but this signal from the Melbourne Institute in its 60th anniversary year highlights its commitment to help shape the national conversation.

In this Compendium the Institute, under its Director and Ronald Henderson Professor, Professor A. Abigail Payne, publishes papers pertinent to the issues of full employment, real wage gains, tax reform, productivity enhancement, full employment, a skilled workforce, support for low-income earners, poverty reduction and improved health and education affordability and delivery. The approach is anchored in the traditions that have distinguished the Institute – that economic prosperity and social wellbeing can be mutually reinforcing and that reducing inequality and improving economic performance should not be seen as competing goals.

The underlying philosophy in this publication is that public policy, directly or indirectly, touches the lives of most Australians. Research and analysis are not confined to the halls of academic theory but are ultimately the fuel that drives our political system to implement national interest improvements. As Professor Payne argues in this Compendium, many data sets remain locked up or limited and Australia needs a more effective evidence base as the foundation for decision making. Technological advances should be harnessed to ensure that available data collected as business-as-usual activities can be available for social science research.

The chapters in this Compendium contain relevant messages for governments, state and federal, for institutions from the Reserve Bank to the Fair Work Commission to treasury departments and for public servants giving policy advice. They contribute to what is becoming an urgent requirement – reversing the malaise in economic and social reform that has seen a deterioration in Australia's relative performance across a range of indicators.

The Compendium coincides with the 2022 Economic and Social Outlook Conference, a long-established partnership between the Melbourne Institute and The Australian newspaper with this year's conference centred on the theme 'Opening Doors of Opportunity.'

"The doors are open for embracing opportunity," the authors say in the opening chapter. "Will we move forward and walk through these doors? There is no shortage of economic and social problems to solve." These challenges coincide with difficulties confronting the national budget, a test for monetary policy in combatting the most serious inflation for decades, an ominous downturn in global growth, severe strains in energy markets, a war in Europe and geo-strategic strain in Asia. Governments are facing multiple objectives. The need, as far as possible, is for policy that is sound and well-based.

Pivotal to the publication is the debate about employment, participation and productivity. In this chapter Professor Peter Dawkins, a former director of the Institute, and Professor Ross Garnaut, review the economic outlook offering a set of prescriptions and suggestions on a new reform agenda. They begin with an overarching concern about the policy balance, saying too much priority is put on fighting inflation rather than delivering the benefits from full employment. They question the scale of Reserve Bank policy tightening during 2022 saying that in current settings "we are relying too little on fiscal and too much on monetary tightening to reduce demand." Then goes to the most crucial

assessment in macroeconomic policy.

While the Reserve Bank said it was worried about a wage-price spiral as occurred in the 1970s, there is no sign of this in current labour market pressures. Meanwhile real wages are falling "at an unprecedented rate."

The authors review the history saying while full employment was the first goal of economic policy from 1945 to the mid-1980s the focus in recent decades shifted to the Non-Accelerating Inflation Rate of Unemployment (NAIRU). Their concern, however, is that the bank has declined to pursue its investigation of the full employment level or the NAIRU - that could be 3 percent or even 2 percent as it was in the postwar decades – by pursuing inflation as the priority. The authors point out that in their current stance the Reserve Bank and Treasury expect monetary policy will cause unemployment to rise to 4 percent during 2023 after being reduced previously to 3.4 percent without creating wage inflation.

“The authors express the hope the incoming Labor Government will “herald a new era of evidence-based economic reform” that centres on full employment, productivity, participation and increasing real wages. They open the door to a series of critical reform options tying the economic and social together putting on the table the ambitious notion of a review of the tax and transfer system.”

In a warning to the bank and the prevailing orthodoxy Dawkins and Garnaut say the greater risk in policy now is rising unemployment and the danger of “an unnecessary recession” – a stance that overlooks the large social and productivity benefits from full employment. More optimistically, they note that in October, the Reserve Bank reduced the rate of increase of interest rates and mentioned full employment again, in its monthly statement.

The authors express the hope the incoming Labor Government will “herald a new era of evidence-based economic reform” that centres on full employment, productivity, participation and increasing real wages. They open the door to a series of critical reform options tying the economic and social together putting on the table the ambitious notion of a review of the tax and transfer system. They advocate structural changes in tax and transfer policy. Given inflation they recommend consideration of an earned income tax credit or a minimum basic income payment as possible alternatives to a substantial rise in the minimum wage to support low-income families.

Paul Kelly, *The Australian (continued)*

In the current environment of high profit share they say the best means of achieving redistribution is by tax changes rather than changes in wage regulations, a decisive conclusion. This could involve a range of options – shifting the base for corporate tax from conventional accounting income to cash flow and higher tax on mineral rents. They agree with current sentiment that childcare and early childhood education seem to be “the single most promising avenue for boosting labour force participation.” Widening the policy lens, the authors say: “Conscientious pursuit of full employment, refocusing immigration on high skills and permanent residence and reform of competition policy to reduce the power and influence of oligopolistic arrangements would contribute to reversal of the declining wage share without raising the NAIRU.”

Moving to the macroeconomic ‘big picture’ the authors put forward the bracing conclusion: getting to full employment and lifting productivity and participation demands a “major economic reform agenda” and, given the budget, “this will inevitably require a substantial increase in the share of taxation in GDP alongside public expenditure reductions in areas that have low or negative benefits for equity and economic efficiency.” This conclusion has widespread support both within and outside government but is highly contentious. Its acceptance involves substantial political challenges where support from outside institutions could play an important role.

This chapter sets the scene for a series of more specific policy chapters. These chapters both reinforce and challenge the instincts of the new Albanese Government. Labour market specialist Professor Mark Wooden examines the data and finds “very little evidence” to support the claim by the union movement that job insecurity in Australia has been steeply rising and has reached crisis levels.

After reviewing the data Wooden said “the likelihood of an Australian worker being involuntarily removed from their job was, at the start of 2022, both very low and less than it has been at any other time during the past 40 years.” Wooden finds little support for the widely held view that the Australian workforce has become increasingly casualised over time. Instead, he finds the numbers of casual workers have changed little over the past two decades. This contrasts with Labor’s election platform pledging to implement a secure jobs plan with a range of policy changes – a signal that it opposes many non-traditional forms of employment. Wooden concludes the best means to reduce job insecurity is to reduce unemployment and underemployment. An aspect to watch, therefore, is whether Labor policy, as implemented, is consistent with evidence-based assessments and results in adverse consequences.

The chapters on health and education identify critical areas for reform. The health chapter by Dr Susan Méndez, Professor Anthony Scott and Professor Yuting Zhang says Australia’s health status is high and achieved by spending only 10.2 percent of GDP but comparisons in terms of access, affordability and timeliness are less favourable.

The cost burden is growing and greater for people on low incomes. The authors identify three issues influencing access – affordability, private health insurance and the geographic distribution of the medical workforce. They recommend better targeting of subsidies and incentives to deliver better equity. The authors find ‘out-of-pocket’ costs are high and better improvements in access need to become a “key policy issue to improve population health care” with natural disasters, pandemics and recessions in recent evidence.

The education chapter “Youth transitions after high school” by Dr Steeve Marchand and Professor A. Abigail Payne highlights that both males and females have high rates of unsuccessful transition. The full-time retention rate for school years 7/8 to 12 for females over the last decade exceeds 85 percent while the rate for males is closer to 80 percent. For males the rate Not in Employment, Education or Training (NEET) is higher than that for the United States and many other countries. Disadvantage is substantially place-based. The risk is that poverty becomes entrenched. Factors leading to low education achievement include anxiety, depression, truancy, alcohol and drug consumption.

The Melbourne Institute is engaged in developing a data-driven set of tools to track and map measures of youth disadvantage. The information will lead to better understanding of the sources of youth disadvantage and means to combat the problem.

It is interesting, however, to note that another chapter in relation to evidence-based policy makes the arresting conclusion that despite many billions now pledged to the expansion of early childhood and pre-school education in Australia there is an absence of proper evaluation of such programs. In a paper that questions the evidence for expanding early childhood education, Professor Marco Castillo and Professor Ragan Petrie point out the Victorian Government is rolling out funded preschool to three-year olds arguing that “two years are better than one” at a cost of \$9 bn over the decade and the NSW Government has committed \$5.8 bn to expand four-year old education.

An analysis conducted by the authors assessed the relationship between preschool enrolment and five school readiness indicators.



Reporting the results they say, “An increase in preschool enrollments in the previous year is associated with a decrease in all five school readiness indicators.” They say that in Victoria and NSW an increase in preschool enrolments had “no effect” on school readiness while in other states it was associated with a decrease.

Noting that federal and state governments are deeply vested in boosting enrolments to improve school readiness, the authors say, “Our results provide a cautionary note on the benefits of preschool as it is currently implemented. The findings show that the expansion of preschool has had, at best, neutral results in terms of child development measures for some children and, at worst, bad outcomes for others.”

The authors say evidence on the benefits of universal early childhood education is mixed. Are new preschools of sufficient quality? What is the ideology at work in the preschools? These are pertinent questions. The Compendium points to alternative research showing that investment in early childhood education results in potentially large benefits for productivity and participation when these children are adults.

There is, however, a bigger question looming in these related debates: the conjunction of increased funding for school education simultaneous with declining Australian school performance relative to other nations. There is now growing alarm that a pivotal factor is not getting sufficient attention: what happens in the classroom and the absence of focus of the science of learning.

The Compendium does not pretend to be comprehensive. That would be unrealistic. But the issues it selects are pressing and relevant. They penetrate to the dynamics of our public policy, the need to produce more evidence-based research and offer better guidance to political decision-makers.

For the past two decades Australia has been seeking a synthesis between market-based reform and the wellsprings of the good society. The inaugural Economic and Social Outlook Conference between the Melbourne Institute and The Australian newspaper in 2002 revolved around the theme of ‘hard heads, soft hearts’ – the need to have economic and social reform blended together. That is still the great challenge. It is time for Australia to renew its reform tradition.