

Part 1

Introduction

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Chapter

1

Towards evidence-based
policy solutions in
economic and social
policy: An introduction

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INTRODUCTION

The Melbourne Institute's 60th anniversary

The Melbourne Institute was founded in 1962 to undertake applied economic and social research into important public policy issues. Over its history the Institute has made important contributions to policy thinking on macroeconomic policy, poverty, wages, employment, unemployment, taxes and transfers, and health policy, amongst many other important policy areas. The Melbourne Institute also produces a range of regular economic indicators and survey data to contribute strongly to the economic and social policy infrastructure of Australia, such as the annual Household Income and Labour Dynamics in Australia (HILDA) Survey, the Taking the Pulse of the Nation (TTPN) Survey, and the quarterly Consumer Attitudes, Sentiments and Expectations (CASiE) Survey. The Melbourne Institute Data Lab (MIDL) also plays an instrumental role by providing a secure environment to access and analyse big data sets, to support the undertaking of field trials, and through the training of the next generation of data scientists who are developing skills through the lens of economic and social science.

To mark our 60th anniversary, we have produced this Compendium of papers on a range of contemporary issues, under the umbrella theme of evidence-based policy solutions in economic and social policy. We do not aim to be comprehensive or to cover all of the big issues of the day. We cover a range of issues that reflect the range of expertise in the Melbourne Institute.

In keeping with the tradition of the Melbourne Institute, we focus on the economic analysis of important social issues, such as employment, health care and education. In so doing we are sceptical of the idea that there is a trade-off between economic prosperity and social wellbeing. Rather, we see them as mutually reinforcing. Promoting economic prosperity helps to achieve social wellbeing. But, equally, promoting social wellbeing helps to provide the conditions for economic prosperity. See, for example, OECD (2015) on why less inequality benefits all. This interplay between the economic and the social runs through several of the chapters in this Compendium.

Evidence-based policy: Needs and opportunities

Davis and Althaus (2020) remind us that 'public policy permeates every aspect of our lives'. Thus, working through all elements of good policy-making is critical. The Melbourne Institute's work has served as part of a critical backbone for effective policy-making, namely supporting the fundamental stage of undertaking and interpreting analysis to develop a framework that allows one to utilise a scientific approach toward identifying options and potential outcomes of changes in policy or practice.

There is a substantial literature on what is needed for sound evidence-based policy. A major contribution to this literature is the two-volume conference proceedings of the Productivity Commission (2010). At that conference, Head (2010) observed three crucial enabling factors that underpin modern conceptions of evidence-based policy. The first is high-quality information databases on relevant topic areas. The second is cohorts of professionals with skills in data analysis. The third is political incentives for utilising evidence-based analysis in governmental decision-making processes.

On these three counts, the current environment in Australia would appear to be quite hopeful. There are more extensive high-quality information bases available now than ever before. There are also many professionals with skills in data analysis in universities, government and the private sector.

There are also reasons to be hopeful about the political incentives for utilising evidence-based analysis. There is a new federal government in place which has no shortage of economic and social problems to address and, as yet, has not become too committed to pre-determined solutions.

The government's recently held Jobs and Skills Summit covered policy questions that included, for example:

- What actions can be taken to boost productivity growth across the economy?
- What actions can be taken to ensure that the benefits of productivity improvement are harnessed to lift the living standards of all Australians?
- What policies would be most effective for sustaining full employment into the future and what are the biggest challenges and risks to achieving this?
- How can we best take advantage of structural changes like digitisation, climate change, the shift to renewable energy, the ageing population, and the growth in the services sector and care economy to boost productivity and sustain full employment?

- How can we reduce barriers to employment for some Australians?
- How do we ensure that emerging employment practices benefit workers' economic security?
- How can governments and business better integrate training and employment pathways?
- Are the current systems for higher education and vocational education and training (VET) appropriately tailored to respond to Australia's needs now and in the future?
- How can government and business maximise the opportunities presented by the structural trends impacting the economy, including energy and climate transition, while ensuring the benefits are shared fairly?
- What investments in education and skills are needed now to take advantage of these opportunities? (Treasury, 2022)

This Summit engendered extensive public discussion to which academic researchers contributed strongly. They opened the opportunity to draw on a vast array of existing evidence and undertake further investigation and analysis. Several of these questions are confronted in this Compendium and several others are at least touched upon.

There are many other important questions that were not addressed at the Summit which are equally important today. These questions concern macroeconomic management, health policy and tax policy. We touch on some of these questions in this Compendium.

The 2022 Economic and Social Outlook Conference, organised through a partnership between the Melbourne Institute and *The Australian* newspaper, centred on the theme of 'opening doors to opportunity'. Creating and building a strong evidence base, deepening the intellectual capacity to understand, debate and shape future policy, and engaging openly with Australians are critical to the infrastructure needed to ensure a prosperous and fair Australia. Equally important are the finances that are needed to sustain this infrastructure and, more importantly, to act and deliver. Does the government have sufficient revenues to address the existing and emerging needs and opportunities to ensure a strong workforce, a healthy society, and healthy innovation and productivity? As we demonstrate in this Compendium, it may be time for a serious review of our tax and transfer system.

Contents of the Compendium

Many of the chapters in this Compendium reflect the underlying importance of tackling poverty and disadvantage in Australia. The Melbourne Institute's Breaking Down Barriers project, funded through the Paul Ramsay Foundation, has issued a number of reports that highlight the big issues around poverty and the fact that rates have remained flat but that education and employment are strongly correlated with cycling out of poverty (Payne and Samarage, 2020; Ananyev, Payne, and Samarage, 2020); that children of families living in disadvantage are more likely to experience disadvantage as young adults (Vera-Toscano and Wilkins, 2020 and 2022); and that single parents exhibit high rates of disadvantage (Broadway and Kalb, 2022). These reports represent a subset of the many reports and papers that have been written to understand disadvantage in Australia. Throughout the Compendium we examine how we can better tailor our policies to address poverty and disadvantage by capturing relevant information, testing ideas, and creating shared environments for research and analysis.

Is it time for industry and foundations to step up and work with government in the financing of field trials, evaluations and initiatives that will promote innovation and productivity and provide relevant social support? We can look to other countries for examples where donors and industry have stepped up. For example, private support has been used to trial targeted income payments in many US cities (Lee, 2022). To fill teaching vacancies in the United States, the Department of Education is collaborating with several businesses to focus on promoting current opportunities and building the future teaching workforce (Department of Education, 2022). To better support STEM (science, technology, engineering and mathematics) needs for Space exploration and innovation, the United States has created a coalition of philanthropy, industry and government to inspire and employ the future Space workforce (White House Briefing Room, 2022).

This Compendium comprises 10 chapters, including this overview chapter. We present them in four parts. This chapter forms Part 1. Part 2 relates to aspects of monetary policy, fiscal policy and labour markets. Part 3 includes chapters on health and education. Part 4 contributes to the literature on the importance of creating and building an evidence base to support better policy-making. While evidence-based decision making is a theme running through the whole Compendium, the chapters in Part 4 specifically address critical components to encourage meaningful evidence-based decision making.

Throughout the Compendium, we see the recurrent theme that epitomises the 60-year history of the Melbourne Institute: How do we support those on low incomes and/or experiencing social or economic disadvantage? The inaugural director of the Melbourne Institute, Ronald Henderson, was known for his work which demonstrated that poverty is not a personal attribute but one that arises out of the organisation of society (Saunders, 2019). While there have been many policy changes that have resulted in a positive impact and opportunities for those at the lower end of the income distribution, we remain far from reaching the United Nations' first Sustainable Development Goal of eliminating poverty by 2030.

Throughout the chapters in this Compendium, evidence is provided, and ideas that will help us get closer to the reduction or elimination of poverty are presented. These ideas range from a consideration of targeted approaches such as providing rent assistance (Lim et al., Chapter 2) and providing better coverage of out-of-pocket health-care costs (Méndez et al., Chapter 6) or increasing JobSeeker Payments (Wooden, Chapter 4), to more general approaches such as providing minimum income support (Dawkins and Garnaut, Chapter 3) or developing targeted understanding of community and individual needs and opportunities to create stackable approaches to addressing disadvantage and providing economic opportunities (Marchand and Payne, Chapter 7).

With a menu of options available for policy innovation, especially as it relates to the overall economic and social wellbeing of Australians, how do we know which option will be most efficient and provide the needed inroads for creating sustainable economic opportunities for all? Creation, exploration, testing and evaluation of data are critical components to our being better informed. In Chapter 8, Payne and Samarage highlight the value of data collected for purposes other than research; in Chapter 10, Botha and de New demonstrate the value of using private sector information to capture financial wellbeing; and Castillo and Petrie, in Chapter 9, highlight the value of testing and exploring before rolling out major policy changes.

MONETARY POLICY, FISCAL POLICY, LABOUR MARKETS

Part 2 of the Compendium focuses on the backbone of Australia's economy and organisations. It raises the macroeconomic policy issues we are facing: what we should be doing to address these conditions and how we might also use our tools and knowledge to address the broad economic and social issues we are and will be encountering. Also highlighted are issues connected to the existing tax and transfer system, and how tools such as taxation might better target behavioural issues that affect society (for example, alcohol taxation in Chapter 5).

Rising interest rates and financial vulnerability

In Chapter 2, Lim, Nguyen, Robinson and Tsiaplias discuss the likely impact of the rising interest rates that Australia has experienced in 2022, especially on the financial vulnerability of different demographic groups, using data from the Consumer Attitudes, Sentiments and Expectations (CASIe) Survey.

The authors show there has been a significant rise, since 2019, in the number of young mortgagors, those aged 18 to 34. Their situation improved during the period of the loosening of monetary policy and low interest rates, but, with the tightening of monetary policy and low fixed-rate mortgages expiring, this is likely to have a negative impact on them.

With respect to renters, since 2020, there has been a sharp rise (11.4 percentage points) in the proportion of young renters living in low socio-economic areas.¹ Prior to the COVID-19 pandemic (2018–2019), 60 percent of young renters residing in these areas reported feeling financially vulnerable. We should anticipate that many of these renters are particularly sensitive to key stress factors such as higher inflation and rental prices.

Recent evidence from CASIe indicates a rising proportion of households reporting worse-off financial conditions. Specifically, there was an increase of 37–44 percent after the interest rate increases, which is the largest proportion since 2012. This may have also been made worse by the impact of rising interest rates on the labour market. In a recent analysis of TTPN data, Payne (2022) reports that perceptions of financial stress and mental distress, although having fallen since mid-2020, remain quite high, especially for families and young adults.

Given we are experiencing a tightening of monetary policy, it will be important for the Reserve Bank of Australia (RBA) to be mindful of such data to ensure it understands the effect it is having on household balance sheets and budgets. Lim et al. argue that the government should also keep a close eye on these data in deciding whether to provide temporary fiscal relief to renters. In addition, it should consider the impact of its assistance to first home buyers during a time of low interest rates, which may have induced them to take on larger mortgages than they would have done, or indeed any mortgage at all. Increasing interest rates that are unanticipated even by the RBA could leave these buyers in a financially precarious situation.

In commenting on the current tightening, Lim et al. argue the current circumstances are complex for several reasons, making the setting of monetary policy also complex. The current inflation has been caused largely by supply shocks associated with the pandemic and the war in Ukraine. Strong demand for goods and services is also having some impact, which is the RBA's justification for raising interest rates. Early evidence from the Melbourne Institute's survey is that consumer intentions to buy major household items have moved sharply lower, and a moderation of the pace of rate hikes soon may be appropriate, to prevent a sharp contraction in demand and precipitate a recession. They also note that while the Melbourne Institute survey finds short-term expectations are elevated, measures of long-term expectations are consistent with the RBA's target range.

¹ Lim et al. define low socio-economic areas as falling in the bottom quintile of areas measured by the ABS-SEIFA index.

Achieving full employment

In Chapter 3, Dawkins and Garnaut point out the risk of placing too much weight on containing inflation rather than achieving full employment. They highlight evidence that an overly tight monetary policy kept unemployment too high for too long (Garnaut, 2020; Gross and Leigh, 2022). In that context they argue that the RBA's explicit emphasis in 2021 on achieving full employment before tightening monetary policy was an important breakthrough.

In turn, they question the substantial tightening that has occurred in 2022, without real evidence of accelerating wage inflation, and note the Treasury and RBA's forecast that unemployment will revert to 4 percent in 2024, having got it down to 3.4 percent in 2022. They note, however, that the Bank has slowed the rate of increase in interest rates in October 2022 and started mentioning full employment again in their monthly statement.

As reaching 3.4 percent unemployment has not created accelerating wage inflation, it is possible that the full employment level of unemployment (or the NAIRU), could be 3, 2.5, or 2 percent or below as it was from 1944 to the mid-1970s. We are unlikely to know for quite some time unless there is an easing of monetary policy. This is an interesting example of evidence-based policy, where we are only likely to find out what the NAIRU is when we get there by expansionary demand management and/or through experiencing accelerating wage inflation.

Maintaining full employment was one of five themes addressed in the recent Jobs and Skills Summit. The other four were: boosting job security and wages; lifting participation and reducing barriers to employment; delivering a high-quality labour force through skills, training and migration; and maximising opportunities in the industries of the future. The chapter by Dawkins and Garnaut touches on most of these issues. Chapter 4, by Wooden, focuses specifically on job security/insecurity.

As Dawkins and Garnaut write, 'We hope the Summit and the White Paper herald a new era of evidence-based economic reform. This should have a central focus on achieving full employment, raising productivity and participation and increasing real wages, with a view to achieving sustainable growth in living standards and ensuring a fair distribution of income. That is the subject of this chapter, which draws on a range of evidence and highlights ways in which additional information and analysis can support the development and refinement of this policy agenda'.

They go on to outline some key elements of such a reform agenda, drawing on their previous work as two of the five economists who wrote to John Howard in 1998 with a five-point plan to reduce unemployment and raise labour force participation. A key ingredient will be ensuring that full employment is reaffirmed as a key priority of the RBA in undertaking the current review.

Insecure employment

Increasing job security was one of the objectives identified at the Jobs and Skills Summit. In chapter 4, Wooden interrogates whether job security has declined and briefly discusses some of the policy options being considered.

Wooden explores the various definitions of job security/insecurity, such as the level of uncertainty surrounding employment continuity, the perceived threat of job loss, and the extent of non-standard or temporary forms of employment. He then reviews available data that could be thought of as reasonable quantitative indicators of job insecurity, such as the level of unemployment, underemployment and underutilisation of labour; the extent of involuntary separation rates; the extent of casual employment; the extent of people on fixed-term contracts; the level of self-employment; and the level of multiple job holders. He finds that all of these possible indicators of job insecurity have either been declining in recent years or have been more or less flat. He also looks at subjective measures of job insecurity and finds no long run trend, but a slight tendency, as one would expect, for the perception of job insecurity to be counter-cyclical, increasing when the economy contracts and unemployment rises.

How does Australia compare with other countries? With limited data availability, Wooden refers us to Hipp (2016) who uses 2005 data on job insecurity for several OECD countries. Australia performed better than most of these countries, being above the multi-country average, even though Australia reports higher levels of fixed term and casual employment.

The lack of a long-term upwards trend, or the lack of evidence of perceived job insecurity being high by international standards, need not prevent a government from seeking to increase job security or reduce job insecurity, and to aim to achieve very high levels of security and low levels of insecurity by international standards. We note that addressing job security was part of the new Labor Government's election platform.

The evidence from Wooden's chapter suggests the main lever to pull to reduce job insecurity is to reduce unemployment and underemployment, and the main risk to job insecurity is the possibility of rising unemployment. Wooden outlines other possible policy options but warns against the risk of unintended consequences.

Such options being considered at the federal level include:

- extending the powers of the Fair Work Commission to cover 'employee-like' forms of work;
- amending legislation to provide for an objective test to determine when a worker can be classified as casual that better aligns with traditional common law definitions;
- ensuring that workers employed through labour hire or other employment arrangements such as outsourcing will not receive less pay than workers employed directly; and
- limiting the use of fixed-term contracts.

Wooden's discussion of the first three suggest they will be challenging to implement. The fourth option is evidently more straightforward, but he argues there is a substantial risk of negative unintended consequences. Evidence from Spain and Portugal suggests that removing restrictions on fixed-term employment led to increased total employment, and imposing restrictions on fixed-term employment led to reduced total employment.

The lesson here is that if attempts are made to reduce fixed-term employment or casual employment to reduce unemployment and underemployment, extreme care needs to be taken to avoid unintended negative consequences.

Fiscal policy

Dawkins and Garnaut point out that the federal government's budget is in a perilous state. Fiscal consolidation will require expenditure cuts, but increases in tax revenue should also feature.

A better balance between fiscal and monetary policy is required. If reductions of demand to contain inflation are achieved with tighter money and looser budgets, the real exchange rate will be higher. More of the growth in employment will come in domestic and less in trade-exposed industries. Full employment would be achieved with larger amounts of public and international debt. That will reduce future relative to current living standards.

The need for more tax revenue will make it imperative for the government to focus on the efficiency and equity of the tax system. On the equity side, care will especially need to be taken of low-income families, especially given the rise in the cost of living in the short term and problems of housing affordability.

In this context the government should be encouraged to rethink its 'stage three tax cuts'. In the short term, the government could consider the use of an earned income tax credit as a cheaper alternative to the tax cuts, to support low-wage earners in low-income families, and as possible alternative to arguing for another large rise in minimum wages next year. Such a policy would have a larger benefit for low-wage earners in low-income families than a wage increase, and another substantial increase in minimum wages at a time of rising unemployment and weakening demand would impose further risk to the employment prospects of low-wage earners. In the longer term an overhaul of the tax transfer system, which is discussed below, should be explored.

EMTRs and increasing labour force participation

Dawkins and Garnaut discuss the problem of high effective marginal tax rates (EMTRs), associated with Australia's tightly means-tested welfare system, and explore various ways of dealing with this to raise labour force participation and hours of work.

A very promising area for raising labour force participation is government investment in expanding support for child care and quality early childhood education, which also has the potential to provide substantial enhancement to human capital development and productivity. Policies at the state and federal level are moving in this direction, but there is considerable scope for further enhancement. The Centre for Policy Development (2021) proposed such an agenda under the name A Guarantee for Children and Young Families, which includes free or low-cost early education from birth to school, with more days available at minimal cost, and more shared paid parental leave for parents and carers.

With respect to parents' labour supply, studies by Wood et al. (2020), Wood and Emslie (2021) and Dixon and Hodgson (2020) indicate the potential for large impacts of such policies on labour supply and GDP, which could also at least make a large contribution to the budget cost of such measures.

Dawkins and Garnaut note that there is significant scope to build on this evidence and provide more detailed estimates of likely effects of such policies through the use of simulation modelling. The Melbourne Institute and the Centre of Policy Studies (CoPS) have put together a proposal to join the Melbourne Institute Tax and Transfer Simulator (MITTS) and CoPS's dynamic CGE modelling to simulate the economy-wide effects of such policies. To do this the MITTS model would need to be enhanced with additional data such as HILDA Survey data, which provide information on child-care costs and labour supply to allow for the modelling of changes in the elasticity of labour supply when one includes changes in child-care costs.

One of the benefits of linking the MITTS and CoPS CGE modelling is that it would factor in the constraint that would be imposed by a limited supply of child-care workers and early childhood educators. Noting that supply of workers for any major program is not infinite or readily available, undertaking a modelling exercise to understand the impacts illustrates the importance of undertaking caution when considering the speed of introduction of such policies. We encourage the federal treasury to explore supporting collaborations with external researchers such as has been proposed above to help guide government policy on important policy priorities.

Taking a holistic approach and embarking on universal programs with informed analysis is important. Also important, however, is to consider strategic programs for targeted groups that are structured to provide flexibility in the way resources are used. For example, the Melbourne Institute has been working with the Brotherhood of St Laurence and the Murdoch Children's Research Institute to develop a proposed field trial that would enable families with young children to address their financial and social constraints by providing them with financial resources that they can use for their specific needs, be it day care, housing, food or other needs. By providing families with the discretion to allocate resources as they see fit, we would not only be addressing concerns about labour participation/supply but also concerns around family wellbeing and child development.

As highlighted by Marchand and Payne in Chapter 7, there can be value in targeting programs based on geographic and/or population considerations. Marchand and Payne illustrate this point in the context of youth transitions from high school. As a given geographical area may face different structures tied to employment opportunities, training and higher education, an evidence base that permits data-informed contexts for communities and both simulation and evaluation at such a level will also support the development of policy and practice on big issues such as employment and labour supply.

Is it time for a comprehensive review of the tax and transfer system? Dawkins and Garnaut argue that it is timely to review the whole design of the tax transfer system as it relates to the relationship between income tax and welfare support. Their argument is premised with a view to simplification, reducing effective marginal tax rates, and supporting low-income households against the various risks they face, such as inflation, increased unemployment, high housing costs, etc., in a new compact with Australian families. They explore variations on this theme, such as the Guaranteed Minimum Income (GMI), Australian Income Security (AIS) and Conditional Minimum Income (CMI) with an employment conditional benefit.

Taxes on alcohol

In Chapter 5, Yang points out that alcohol taxation is an important policy instrument for correcting the market failure associated with creating excessive alcohol consumption. In Australia, the social cost of alcohol use in 2017–2018 was estimated to be nearly \$67 billion (Whetton et al., 2021).

Yang uses data from the first six waves of the Australian National Drug Strategy Household Survey (NDSHS), which provides a sample of about 150,000 individuals. His analysis links 10 alcohol beverage types to drink driving and hazardous, disturbing or abusive behaviours when intoxicated. He finds that regular-strength beer and pre-mixed spirits in a can rank highest in their links to negative behaviours, followed by mid-strength beer, cask wine and bottled spirits and liqueurs. In contrast, drinking low-strength beer or fortified wine reduces the probability for these risk behaviours. Bottled wine has a positive association with a greater incidence of drink driving but is linked to a reduced chance of other behaviours.

The policy implication is that existing volumetric tax rates per litre are not the best way to impact these external costs of alcohol consumption. Yang concludes that 'The current Australian alcohol tax system is complex, anomalous and incoherent', and is in 'great need for reform and simplification'. For example, cask wine appears to be significantly under-taxed relative to its external cost to society. Regular- and mid-strength beer are comparable to pre-mixed drinks in terms of these external costs, and, yet, there is significant disparity across their tax rates.

In response to similar concerns, the UK Government undertook an alcohol tax review (2020) and has since produced a proposal for a simpler volumetric tax system that is more consistent across beverages but with a progressive structure so that lower alcohol concentration products are assigned lower duty rates.

Yang demonstrates that the same amount of alcohol in different beverage types is linked to different probabilities of harmful behaviours, which leads to different magnitudes of negative externalities. This evidence should allow policy-makers to develop policies that target the taxation of alcoholic drinks based on the extent to which they are considered more harmful, thus achieving the highest efficiency at the societal level.

While Yang's research points to a direction for reform, he notes that he cannot provide the exact amount of tax that should apply to different beverages. To undertake a more comprehensive analysis would require, as in Srivista et al. (2015), the linking of his research on the negative externalities of different alcohol types with an analysis of demand responsiveness and substitution effects between different alcohol types.

HEALTH AND EDUCATION

This section focuses on targeted concerns that, while affecting us all, require specific evaluations to understand the intentional and unintentional consequences of policies and regulations. We focus on health and education to illustrate how best to use evidence-based approaches to address these issues. The work, however, could easily be extended to cover additional pressing concerns such as energy and the environment.

Improving access to health care in Australia

In Chapter 6, Méndez, Scott and Zhang point out that comparisons of Australia’s health system performance with other rich countries are favourable with respect to high health status, which is achieved with health spending representing only 10.2 percent of GDP. Comparisons to other critical features of a health system, such as affordability and timeliness, however, are less favourable when compared to these other countries.

Affordability is a growing issue in Australia because out-of-pocket costs have been rising much faster than wages. Out-of-pocket expenses are around 20 percent of the average person’s annual health expenditure. The proportion of average annual income devoted to personal spending on health care was 2.6 percent in 2018–2019 and this proportion is increasing by an average of 1.4 percent per year. The cost burden is higher for those with low incomes. For households at the lowest income deciles, individuals are 15 times more likely to have catastrophic health expenditures when compared to households with high incomes. Higher-income households, in contrast, spend as low as 10 percent of their net income on out-of-pocket health-care costs. While this difference is a bit mechanical—if one earns more, one will by calculation spend less on necessities—it also illustrates that the pressure of increasing health-care costs is not evenly distributed across the population.

The authors examine the three issues influencing access to health care in Australia: affordability, private health insurance, and the geographic distribution of the medical workforce. They conclude that subsidies and incentives relating to these three issues should be better targeted if we want to achieve more equitable outcomes.

Addressing health-care affordability, Medicare subsidies should be better targeted for those on low incomes. In relation to addressing issues about private health insurance adoption and costs, Méndez et al. present several proposals. First, subsidies for private health insurance should be better targeted to population groups with lower incomes and to those who are likely to be more responsive to price incentives, such as young adults. Second, the Medicare Levy Surcharge should be redesigned to encourage Australians to purchase private health insurance that provides adequate coverage as well as lower out-of-pocket costs. Third, policies that lower the result in lowering the cost of private health care should be developed.

In relation to the distribution of medical workers across Australia, the use of financial incentives to encourage doctors to relocate to and stay in rural areas could be better targeted at younger doctors who have recently completed training and are more mobile. Moreover, we should learn from our experiences during the pandemic, which saw an increase in virtual and telephone medical visits; we should also incorporate new technologies that will better address the persistent gaps in sufficient medical staffing in rural and remote areas.

School-to-work transition

A key issue that was canvassed at the Jobs and Skills Summit is how to meet the future skills needs of the Australian economy. This is a major concern for the business sector because there are relatively few job applicants for each vacancy as the labour market has tightened.

Critical to a successful workforce are the decisions high school students make that lead to a successful transition to employment. As Marchand and Payne (Chapter 7) point out, prior to the pandemic the youth unemployment rate in Australia was close to 12 percent and today it remains high, despite lower unemployment rates across all ages. Moreover, both males and females exhibit higher rates of unsuccessful transition as illustrated in the rate of young adults who are not in employment, education, or training (NEET). The NEET rate for Australian males is higher than the rates for males in the United States, New Zealand, and many other countries. The NEET rate for Australian females is lower than for males, and females have lower NEET rates than in countries such as the United States, the United Kingdom, and Canada.

Despite efforts over the last decade to improve high school completion rates in Australia, Marchand and Payne illustrate that a high proportion of students do not continue high school beyond year 10. At the height of the pandemic, many Australians expressed a high level of financial stress. For those aged 25 to 34, the factors that contributed to this stress included not being employed, only being part-time employed and not pursuing degrees beyond high school.

Marchand and Payne point out the following critical factors that contribute to low educational achievement and/or negative employment situations:

- Place-based disadvantage: living in areas with high disadvantage is associated with lower educational achievement and lower income as an adult.
- Experience of health disorders such as anxiety, depression and the like is associated with dropping out of school.
- Not attending school and disengaging with school at an early age place students at higher risk for an unsuccessful transition into employment.
- Engaging in risky behaviour such as heavy alcohol or drug consumption in high school often results in long-lasting consequences if there is no intervention early on.

The authors demonstrate that the solutions for encouraging staying in school and promoting successful transitions into employment are multi-faceted. They illustrate how, by bringing data together and developing metrics at a community level, we will be better poised to develop, test and evaluate policy and actions designed to support youth in high school and in the years immediately following high school. Chapter 7 also illustrates the importance of addressing what can be considered a universal problem through a place-based lens.

Workforce skills

In their chapter, Dawkins and Garnaut mention the additional argument made by Keating (2022), that skills enhancement can help arrest low wage growth, which contributes to low productivity growth. Keating (2022) argues that low wage growth depresses consumer demand and in turn investment in new plant and machinery. He argues that 'technological change and globalisation have hollowed out routine middle level jobs, depressing pay in these occupations relative to higher-paid occupation' and that investment in education and training is the best way to confront this.

Dawkins and Garnaut also point to research and policy analysis on tertiary education by the late Peter Noonan and other colleagues at the Mitchell Institute and elsewhere (Dawkins et al., 2019; Noonan et al., 2019; Bean and Dawkins, 2021), which highlight important improvements that could be made to strengthen workforce skill development by encouraging connections between industry and the higher education and VET sectors.

Early childhood education

There is a strong evidence base supporting investment in early childhood education and how this investment results in potentially large benefits for productivity and participation when these children are adults (see Dawkins and Garnaut, Chapter 3). In previous work, Vera-Toscano and Wilkins (2020, 2022) point to the ramifications for young adults of growing up poor in Australia, highlighting another reason for early childhood investment. Melbourne Institute reports by Tseng et al. (2017, 2018) demonstrate the importance and value of strong investment in families and children, especially those who are experiencing extreme disadvantage. The Early Years Education Program has been awarded many accolades and is expanding to reach more children and families in Australia.

Dawkins and Garnaut point to the proposal from the Centre for Policy Development (2021). From an economic perspective this has the potential to increase the labour supply of parents and to have a long-term impact on the health, wellbeing and educational achievement of children and their future careers and productivity. In calling for more research on their proposals, the authors argue that it is a very promising agenda as it addresses unmet needs from birth until school at a cost that is low or free.

In Chapter 9, however, Castillo and Petrie urge caution in implementing a major expansion in early childhood education, pointing to evidence that the expansion that has already occurred in Victoria and New South Wales has not yet yielded improvements on measures of school readiness for five-year-olds. They argue for randomised trials to find evidence of what kinds of early childhood education interventions yield tangible benefits.

And, as mentioned above, a proposed initiative by the Melbourne Institute, the Murdoch Children's Research Institute and the Brotherhood of St Laurence emphasises the importance of investing in families with young children so that they can allocate resources based on their needs in combination with programmatic support that can address financial, social and emotional wellbeing for children and their parents. Thus, a debatable issue is the best way to allocate scarce government resources to support early child development and family wellbeing. With data and proposals from several organisations, we are well placed to create a stronger evidence base through trials, analyses and evaluations.



THE IMPORTANCE OF CREATING AND BUILDING AN EVIDENCE BASE TO SUPPORT BETTER POLICY-MAKING

Evidence-based policy-making (EBPM) is, admittedly, a loaded phrase. We use it freely but often do not articulate what we mean by it. From a scientific perspective we should be strict in the application of EBPM to create a clear link between a theory or hypothesis and the results from an application of that hypothesis. A looser definition would include an interpretation of information and then use of that interpretation to persuade or argue for a particular set of reforms or policies. Of course, policy-makers still have to make big judgments, and decide what weights to place on different desired outcomes, but hopefully draw on the best evidence available in making those judgments. Also included in EBPM would be the adoption of what might be referred to as ‘policy diffusion’: see what works elsewhere and apply those policies to a different context, taking or not taking into account the features of the given situation (for example, population, geography, laws/practices) that could result in different outcomes.

In our context, we focus on the roles that the creation of data, the use of existing data, and the testing of theories and hypotheses play in helping us to better understand issues at hand and to predict how a change in policy or practice will result in the addressing of the issues, considering both intended and unintended consequences. To inform policy, as economists (and more broadly social scientists), we are not simply using data and the ever-increasing bag of tools for data analysis. We must start with a framework, be it formal or informal, for thinking through an issue, considering how we live and work in Australia, what might motivate us or support a change, and how our public sector operates. It is through a social science (or economic) lens that we can then consider what data would be most suited to testing ideas and/or evaluating policy/practice to apply the most relevant statistical techniques to embrace notions of exploring more than correlations or statistical significance.

‘Big data’—lots of observations and/or many years of observation—presents opportunities to contribute meaningful evidence. Big data, however, comes with a cautionary tale of not simply relying on statistical significance without a relevant consideration of the frameworks/hypotheses and an understanding of what we can and cannot measure with data.

The importance of making the most of administrative data to create an evidence base

In Chapter 8, Payne and Samarage highlight the importance of the recent passage of the Data Availability and Transparency Act (2022) (‘DATA’) by the Commonwealth government. Not only will DATA enable better access to Commonwealth data, there will also be opportunities for state governments to follow suit and develop stronger governance frameworks that support the use of secure data environments that allow for the targeted development of data from government, service providers and industry to undertake deeper and more rigorous analyses of Australian challenges and opportunities.

The authors reflect on the current underutilisation of an important and valuable treasure of the many data elements collected as it relates to understanding actions taken, what works, and what is not working in Australia. And, yet, we are well positioned to take up the opportunity to make the most of government and private sector data through collaboration and sharing of information. Payne and Samarage also highlight the critical role of administrative data and data collected for purposes other than research or analysis on their own, in combination with survey data, and as part of field trials, in identifying relevant treatment groups, developing testable hypotheses, and in short- and long-term evaluations of trial results.

Critical to greater use of Australian data is ensuring there is a range of platforms that can host data, and enable analysis and the reporting of results. When data are sufficiently de-identified or provided at a group level (geography, population, other characteristics), open access platforms are sufficient. Data that are proprietary, contain personal information even though they are deidentified, and/or contain sensitive information, require secure platforms that adhere to requirements of data custodians and respect the individuals, households, communities, and/or organisations under study. These platforms require strong governance and oversight, cooperation with data custodians, and a range of protocols to minimise the risk of unauthorised access or reidentification of individuals.

A second critical component for effective data analysis is a willingness by the data custodian to provide access to the data and to support efforts to permit the linking of measures across data sets. While DATA has enabled the sharing of data across government departments, releasing and enabling linking of the data are not mandated under the legislation. This highlights the importance of the work undertaken by the Office of the National Data Commissioner. Equally important will be for those custodians not governed under DATA, such as state and local governments and service providers, to embrace the principles of the legislation.

Payne and Samarage illustrate a few of the many ways that administrative data can be used to inform and test hypotheses. Importantly, they provide a framework for how we can and should be moving forward to enable the building and support of platforms that enable the sharing of data to allow an increased undertaking of independent and credible analysis by a range of stakeholders. Importantly they demonstrate the critical roles that universities and groups such as the Melbourne Institute play in the establishment of platforms, shared data environments, and rigorous analyses.

The importance of testing before undertaking major policy changes

Castillo and Petrie, in Chapter 9, highlight that the government invests billions of dollars to support various programs that increase the economic and social prosperity of Australians. Some of these investments, however, are based on beliefs or evidence that they work elsewhere. These beliefs and/or evidence are not always grounded insofar as we understand the mechanisms or drivers behind the observed (or anticipated) success. This lack of grounding can lead to an inefficient and, in the worst case, ineffective use of taxpayer dollars.

The authors highlight the importance of undertaking trials that randomise recipients and non-recipients of the policy or practice being explored. They stress the importance of taking a scientific approach that will permit an understanding of the intended and unintended consequences of the proposed change, in addition to what may happen if the policy or practice is adopted and, thus, 'scaled-up'.

While ex-post policy evaluation is a useful tool, Castillo and Petrie point out that, without information pre-policy change, which can then be used with ex-post policy change, it can be challenging to establish that a policy has had its intended effects. One way of ensuring strong policy effectiveness is to first undertake a trial. If a policy is implemented, then one should also consider the importance of collecting information pre and post implementation to allow for further analyses, including being able to capture the medium- and longer-term effects of a policy. In Chapter 8, Payne and Samarage highlight the importance of undertaking this data collection and the importance of using administrative data to support such analyses.

To illustrate the importance of undertaking a randomised trial, the authors use recent expansions of funded preschool for four-year-olds as an example. Many studies have established that investing in child development at early ages results in better student outcomes in school and better employment prospects beyond school. What is less clear are the best options for undertaking an investment in child development.

With funded preschool (or day care as is offered in other countries), there could be a range of impacts: child development, labour force participation by parents, and family economic and social wellbeing. Castillo and Petrie illustrate the importance of incorporating trials by focusing on the correlation between measures of school readiness before and after the change in policies regarding public funding of preschool. Using data at

a community level (local government area), the authors find limited impacts of increased preschool enrolment on measures of school readiness in the first year of full-time schooling. Their results, however, also illustrate regional differences. They find that communities in Victoria and New South Wales have close to no effect on school readiness and that increases in enrolment in communities located in the other states have a slightly negative effect on school readiness.

As Castillo and Petrie point out, there are many hypotheses that would explain their findings. But the underlying reasons and the mechanisms for these results are difficult to discern because of the lack of data available for analysis and the ex-post approach that was required to undertake the analysis.

Chapter 9 highlights the importance of structuring an evaluation plan as a policy is being developed. Such a plan can assist in the creation of stronger policies, thus resulting in policies being more targeted in terms of addressing the challenges for which a solution is available.

How does understanding financial wellbeing help us create better policies?

In the final chapter of the Compendium, Chapter 10, Botha and de New illustrate the importance of capturing detailed information on households and recording this information over repeated intervals. They illustrate the development of financial wellbeing scales that reflect their finances and capture three temporal periods: day-to-day expenses, big ticket emergency expenses and one-time future expenses.

By capturing this real-time information on household spending patterns, the authors illustrate how this allows us to observe actual behaviour on a quarterly basis (or more frequently). Information on actual behaviour is particularly useful when there are major economic disruptions, for example, during the pandemic and resulting lockdowns, changes in work patterns, and related issues that affected many household finances. The impacts of more recent events such as increases in interest rates and fuel prices are additional examples.

Botha and de New's chapter illustrates the work that is being undertaken to create more informative measures that can be used on their own or in analyses to understand current or emerging issues.

CONCLUSIONS: TOWARDS AN EVIDENCE-BASED POLICY AGENDA

The doors are open for embracing opportunity. Will we move forward and walk through these doors? If so, we must be mindful of the importance of reflecting and embracing change through the lens of a strong and objective evidence base. There is no shortage of economic and social problems to solve. There are more information bases than ever to analyse, and many expert analysts to assist the policy-makers. We have a new federal government that recognises the existence of significant economic and social policy challenges. Now is the time to create a sustainable environment for testing ideas, embedding and developing evidence to understand issues and to allow for real time before, during and following evaluations of the solutions.

This Compendium highlights the interplay between equity and efficiency for a number of pressing economic and social issues. In the tradition of the Melbourne Institute, we focus on the many challenges that households with lower incomes face, the challenges of providing meaningful opportunities and skills acquisition for our children and youth, and the pressing need to sustain a vibrant yet fair health system. One very good thing is that unemployment and underemployment have been declining and we have been approaching full employment, which has offered much promise for wage earners.

Yet, as we move out of the pandemic, face global macroeconomic and energy crises, and combat climate change, the agenda of the new government is full and challenging. The government's budget is in serious difficulty and will worsen with slowing growth and rising unemployment. A constrained budget will constrain the government's ability to meet the needs of the disadvantaged or invest in education, training and the health of the population.

This narrative emerges from much of the analysis in this Compendium. We encourage government to aim for such a policy focused on inclusive growth. To achieve these aims, we must not forget the importance of modelling, testing and evaluating to create what is long overdue, a strong and deep evidence base to permit effective and positive change.

In this Compendium we focus on a number of these challenges, pointing to a range of possible solutions and the further research that would be needed to refine these solutions. This is in the tradition of the Melbourne Institute over its 60-year history. We hope that it stimulates debate and further research and analysis. The Melbourne Institute itself is committed to continuing to play a strong role in the Australian evidence-based policy landscape in the decades ahead.

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