

Third HILDA Statistical Report

'Churn' within the Tax and Transfer Systems

The Melbourne Institute Tax and Transfer Simulator has thrown light on which households pay tax and which receive a range of Commonwealth benefits and how those patterns have changed over time.

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Improving the Working Lives of Doctors

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New Director for IPRIA

The Melbourne Institute's Beth Webster has been appointed Director of IPRIA.

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Third HILDA Statistical Report Released

The third annual statistical report from the HILDA Survey was officially launched earlier this month as part of the Melbourne Institute Public Economics Forum (held in Canberra on 15 September 2008).

Titled 'Families, Incomes and Jobs', and co-authored by Bruce Headey, now an Honorary Principal Fellow of the Melbourne Institute, and Diana Warren, a Research Officer working in the HILDA Survey project team, the volume contains a series of short reports summarising key insights emanating from analysis of the first 5 waves of the HILDA Survey.

The HILDA Survey is a panel survey that is following people through time. As such, it provides 'something akin to video evidence rather than the still photographs produced by cross-section surveys', said Associate Professor Headey.

The HILDA Survey commenced in 2001. This report uses data covering the period 2001 to 2005. The next volume, covering the period 2001 to 2006, is currently in production and is expected to be released in the first half of next year.

The scope of the report reflects the coverage of the HILDA Survey. It is structured into four sections: (i) households and family life; (ii) incomes and economic well-being; (iii) employment and joblessness; and (iv) life satisfaction, health and well-being.

Households and Family Life

The types of issues examined under households and family life include: generational differences in attitudes about marriage and children; the incidence of couples living apart; fertility behaviour and intentions; the use being made of parental leave; and how men and women spend their time.

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Third HILDA Statistical Report Released (cont'd)

Time use in couple households

Apart from its longitudinal dimension, one of the key features of the HILDA Survey is its household structure. As a result, data users are able to examine how members of the same household interact. A good example of this is working time. It is well established that, on average, men spend much more time in paid employment than do women, but the reverse is true of housework. Who then spends the most time working within couple households? The data for 2005 show that when averaged across all households, the answer is men—49 hours compared with 45.7 for women. The main reason for this is that in 'traditional' households, where the man has a full-time paid job and the woman is not in paid employment, the gap in total working hours is very large—60 hours per week for men compared with 36 hours for their spouses. In contrast, when both have full-time jobs their total work hours are about the same—63 each. Finally, in households where both have part-time jobs or where both have no jobs, the housework burden falls disproportionately on the woman.

Incomes and Economic Well-being

Another key feature of the HILDA Survey is the amount of information that it collects about economic well-being. In particular, detailed information about income and income sources is collected every year. In addition, a detailed series of questions is asked about household wealth every four years, and since wave 5, information about a range of household expenditure has also been collected. 'The HILDA Survey is thus moving towards providing a full set of household financial accounts on a longitudinal multi-year basis.' This feature of the survey data is emphasised in the report, and was at the centre of Associate Professor Headey's presentation to the Public Economics Forum. In particular, he demonstrated how the HILDA Survey data can be used to provide an improved assessment of trends in medium-term and long-term measures of economic well-being.

Not sharing the fruits of growth? Snapshot of living standards in 2001–2005

An interesting feature of the income data collected is that while real incomes have risen strongly over the period covered—by more than 10 per cent in real terms over the period 2001 to 2005—not all families have shared in the gains. The HILDA Survey finds that only 58 per cent of families recorded real income gains after adjusting for household size.

Such findings might be explained as reflecting a rise in income inequality. But as the authors note, while there was a small increase in income inequality in the 1980s and 1990s, this did not continue into the period covered by the HILDA Survey. Indeed, the second speaker at the Public Economics Forum, HILDA Survey Project Director, Professor Mark Wooden presented evidence from the HILDA Survey indicating that some of the biggest gains in income were recorded by people who were in the bottom decile of the income distribution at the start of the period.

It thus follows that the 'losers' during the boom are scattered across the income spectrum.

Professor Wooden also observed that over any period there will always be 'winners' and 'losers'; that this is just a reflection of life. In some cases this will reflect decisions that are planned, such as retirement, and others where it is not, such as job loss. Further, in many cases it will reflect changes in household size; all households where a new child is born will be measured as experiencing a fall in equivalised income, since their income needs have increased without any offsetting increase in nominal income. Similarly, members of households that separate typically expect a decline in equivalised income because of the loss of economies from cohabitation.

Employment and Joblessness

Under the subject heading of employment and joblessness, the report features stories on, among other things: changes in working time preferences; whether low-paying jobs facilitate access to higher-paying jobs; the impact of education, and human capital more broadly, on labour earnings; the incidence of paid and unpaid leave from work; and the extent to which expected retirement timelines are met.

Lots of people with little education make good money—how?

Standard economic theory says that to make good money you need a good education and plenty of work experience in your chosen field. But the HILDA Survey shows that, although this is true on average, about a quarter of people with less than Year 12 education are in the top half of the income distribution. How do they do it? In part it can be explained by marked differences in the demand side of the market. Workers in the mining industry, for example, are better paid than workers in other industries with comparable skills and experience.

The authors also claim that the HILDA Survey data reveal that it is also important to be a risk-taker with high levels of self-confidence and conscientiousness.

According to Associate Professor Headey, 'Standard human capital theory provides an inadequate explanation of the differences (variance) in earnings per hour by confining itself to variables such as gender, age, years of education, job training, years of work experience and length of tenure with current employer'.

The HILDA data offer an improved explanation of how and why some people with low levels of formal education achieve high earnings by looking at additional determinants, such as parents' occupational status and personality traits.

Adult education—everybody is doing it, but does it pay off?

The HILDA Survey shows that over the period, 2001–2005, one-third of all Australian adults undertook adult education and nearly two-thirds of employees did some form of job training.

But does extra education and training pay off in the form of higher earnings? The HILDA Survey shows that within two to three years, extra education leads to substantially higher earnings, especially for men.

According to Associate Professor Headey 'It transpires that an extraordinary number of adult Australians—people who are well past the conventional age of full-time formal education—are involved in education or job training or both. In the combined period 2001–2005, 32.4 per cent of the prime age population were involved in formal education and in 2003–2004, 64 per cent of employees undertook some form of job training. The purpose of the study was to establish who undertakes adult education and training, what are the aims and to make a preliminary attempt to assess whether education and training pay off in terms of higher future earnings'.

Trade certificates were the most commonly sought qualification, followed by Pass degrees (Bachelor degrees, Associate degrees and advanced diplomas) and then Master's degrees.

Life Satisfaction, Health and Well-being

The fourth and final section of the report presents data on a range of issues, including: (i) trends in life satisfaction; (ii) the persistence of health problems; (iii) the correlates of personality traits; and (iv) access to social capital, or networks.

Social networks—who has got them and who hasn't?

Social networks are thought to be important for career success. Intimacy matters for physical and mental health, as well as for happiness. The HILDA Survey every year asks a number of questions that can be used to assess the availability of friendship and social support, or social networks. Key findings from the analysis of these data include:

- (i) Most social network and relationship problems are not long term.
- (ii) Most people who report problems in a particular year have repaired their relationships—or found new and more satisfying ones—a few years down the track.
- (iii) Single people, including single parents, often report persistent problems. These people often do not get on well with relatives and do not have compensating social networks.

The HILDA Statistical Report, Families, Incomes and Jobs, Volume 3, is available from the Melbourne Institute website, <www.melbourneinstitute.com/hilda/statreport.html>.

The presentations from the Public Economics Forum can also be obtained from <www.melbourneinstitute.com/forums/pub_forums.html>.

Melbourne Institute Re-contracted for HILDA Survey Waves 9 to 12

As all HILDA Survey users and other interested stakeholders would be aware, as part of the 2007 Federal Budget, the Australian Government committed funding to enable a further four waves of the HILDA Survey to be conducted (Waves 9 to 12).

What was not clear at that time was whether the Melbourne Institute would continue to manage the project. We are thus pleased to announce that following a competitive tender process, the contract has been awarded to the Melbourne Institute, and a contract with the Department of Families, Housing, Community Services and Indigenous Affairs has been finalised.

According to Professor Mark Wooden, Director of the HILDA Survey project (and Deputy Director of the Melbourne Institute), success in the tender process 'provides further recognition of the success of the Institute, and its partners, in managing the HILDA Survey since its inception eight years ago'.

The new contract, however, will be accompanied by two major changes in the way the project is organised.

Change in Fieldwork Company

The Nielsen Company (formerly ACNielsen) will cease its role as the provider of fieldwork services following

completion of wave 8 (early next year). Nielsen has been responsible for the data collection and data entry phases of the project since the survey began, and thus deserves much of the credit for the success of the HILDA Survey to date. Unfortunately the company decided not to seek to extend its current contract. 'The type of work involved in the HILDA Survey is apparently no longer consistent with the global business strategy of the Nielsen Company', said Professor Wooden.

The Melbourne Institute thus conducted its own tender process to find a successor to Nielsen, and in July finalised a sub-contract with Roy Morgan Research. Professor Wooden stated that he was delighted to be able to secure the services of Roy Morgan. 'The company has a long and proud history in market and social research in Australia, and will be known to many Australians through its Morgan Gallup Poll.'

Switch to CAPI

The introduction of a new provider is likely to be accompanied by a major change in the survey administration method—from reliance on pen and paper methods to computer-assisted personal interviewing. 'During the next year, Roy Morgan will be working with us to develop and test a workable program and system, with a view to ensuring this admittedly large change will have as little disruption on data continuity as possible', said Professor Wooden.

2008 Downing Fellow

Professor Richard Burkhauser is currently visiting the Melbourne Institute.

Richard V. Burkhauser is the Sarah Gibson Blanding Professor of Public Policy in the Department of Policy Analysis and Management and a Professor of Economics in the Department of Economics, Cornell University. He is currently on sabbatical in Australia where he is the Richard Downing Visiting Fellow at the Melbourne Institute of Applied Economic and Social Research. His professional career has focused on how public policies affect the economic behaviour and well-being of vulnerable populations. He has published widely on these topics in journals of demography, economics, gerontology, as well as public policy. He received his PhD in Economics from the University of Chicago.

Professor Burkhauser will be presenting the 2008 Downing Public Lecture.

Topic: What Has Been Happening to Income Inequality in the United States?

Date: Thursday 23 October

Time: 6.00pm, with refreshments to follow at 7.00pm

Location: Sunderland Theatre, Medical Building, The University of Melbourne

RSVP to Sara Currie on 03 8344 1848 or <scurrie@unimelb.edu.au>

Further information is available from <www.ecom.unimelb.edu.au/faculty/events.html>.

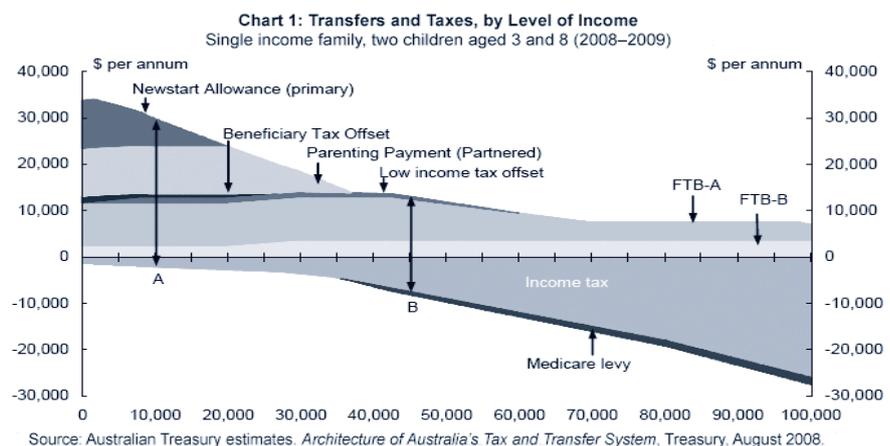
'Churn' within the Tax and Transfer Systems

The government has rightly commissioned the Henry review to examine the combined impact of the tax and transfer systems. Twenty-five per cent of Commonwealth revenue is recycled as transfer payments.

Over half of Australian households receive some kind of income support payment, many of whom also pay at least some income tax. The phenomenon by which households both pay tax and receive benefits is named 'churn'.

Neither tax collection nor the administration of income support is costless. Efficiency, administration and compliance costs are incurred by individuals and the community. These most likely rise as the complexity of the system increases. Some studies have put the compliance costs associated with the main Commonwealth taxes at 1.4 to 2 per cent of GDP. The Henry review acknowledges community concern about such costs.

The Melbourne Institute Tax and Transfer Simulator (MITTS) has been used to throw light on which households pay tax and which receive a range of Commonwealth benefits, and show how those patterns have changed over time. For example, the analysis shows that, on average, households in the first four deciles of equivalised income (which accounts for family composition) receive more in benefits than they pay in direct income tax. Transfers from the government to these groups are dominated by pensions and allowances; family payments are relatively small (aged pensioners, for example, rarely have dependent children at home). Families whose equivalised income falls in deciles 4 to 7 account for the highest proportion of family payments. This proportion increases as the number of children in the family rises and is higher for single parents than for couples with children. Indeed, sole parents or couples with at least two young dependants have to earn well over \$50,000 per annum before income tax exceeds their income support payments. The full results are reported in a paper by Hielke Buddelmeyer, Nicolas Héroult and Guyonne Kalb, available from the Melbourne Institute website.



MITTS can also be used to analyse the impact of the tax and transfer systems on incentives to take a job or work longer hours. The interactions between the tax and transfer systems and their implications for labour supply are complex. The resulting impact on hours supplied or workforce participation reflects the net effect of two competing forces. That is, lower tax rates improve the return to working, encouraging greater labour supply, but also support greater leisure (reduced labour supply) by raising household income. In addition, family payments have increased over recent years (raising income) and are now withdrawn over a wider income range, increasing the effective marginal tax rate over this range. Both effects reduce labour supply.

The effective tax rate faced by an individual comprises the tax rate payable on earnings plus any loss of benefits incurred as income rises. Effective rates levied on the earnings of a secondary earner in a low-income couple family with children can be surprisingly high. An opinion piece published in *The Australian* newspaper in late September explores some of the implications of current tax and transfer arrangements, drawing on work undertaken by researchers at the Melbourne Institute using MITTS. The text of this article is also available from our website. The article argues that it is unlikely that a simpler system with stronger incentives for greater labour supply by key groups such as women with dependent children can be introduced without a considerable number of losers or decreased revenue.

The paper and opinion piece from The Australian referred to in this article are available from <www.melbourneinstitute.com>.

Improving the Working Lives of Doctors

In May 2008, the Melbourne Institute launched a major new longitudinal survey of doctors in Australia.

The MABEL survey aims to collect rich information about the preferences and views of doctors. The survey is funded by the NHMRC and is being conducted by researchers at the University of Melbourne and Monash University.

According to Professor Anthony Scott of the Melbourne Institute, “The current health workforce “crisis” is likely to get worse before it gets better. Over 50 per cent of medical graduates are women, the generation of “baby boomers” is approaching retirement, and many young doctors don’t want to run a business—they just want to be a doctor. Remote and rural areas are likely to be affected the most by these changes. Unfortunately, simply training more doctors will not be enough to fix the current crisis. More action is needed. However, there is very little research evidence that indicates what works and what doesn’t in designing policies to support the medical workforce. What factors influence doctors’ morale and motivation? How does morale and motivation influence doctors’ work–life balance, and the balance between direct patient care and other aspects of medical jobs. Do younger and older doctors have different views about the structure of medical careers and the practise of medicine? How are these issues changing over time? How can medical career structures be re-designed to be more flexible and meet doctors’ needs?”

Medical workforce data at the moment are not fit for this purpose and cannot answer these important questions.

Medical workforce policy remains an ‘evidence free’ zone. Current data collections are designed to count the size and location of the medical workforce, but that is all. They are not designed to capture the preferences or views of doctors that can then be fed into policy development, nor do current data collections enable us to understand why changes are happening or how they influence quality and access to care. Such information is vital in developing effective policies to support the medical workforce.

The Medicine in Australia: Balancing Employment and Life or MABEL survey has been endorsed by medical specialist colleges, societies and training providers (see <www.mabel.org.au>) and has a Policy Reference Group which is providing advice about medical workforce policy issues that will inform the collection and analysis of data and ensure that MABEL is not just an academic exercise but will make a real difference to doctors’ working lives. The information provided by doctors will be used to (i) improve doctors’ morale and work satisfaction, thus leading to improved patient care; (ii) improve the population’s access to medical services; and (iii) improve the evidence base of medical workforce policy. “The longitudinal nature of the survey enables us to examine how circumstances change over time, and what effect these changes are having on the working and family lives of doctors.”

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New Director for IPRIA

A new Director has been appointed to lead the Intellectual Property Research Institute of Australia (IPRIA) at the University of Melbourne.

The Deans of the Faculty of Economics and Commerce, Law and the Melbourne Business School have appointed Associate Professor Beth Webster to head the key cross faculty research institute.

Announcing the appointment, Professor Margaret Abernethy, Dean of the Faculty of Economics and Commerce, has stated that 'We are very pleased to have attracted such an eminent academic to build on the work and brand reputation of the increasingly important Intellectual Property Research Institute of Australia. I think it is indicative of the growing reputation the institute has in Australia and internationally'.

Associate Professor Webster will continue to advance the profile and impact of IPRIA which was hitherto headed by Professor Andrew Christie, who has chosen to focus on new academic challenges. During Professor Christie's term as Director, IPRIA established itself as a world class research organisation engaging in a range of leading edge research projects involving key research teams from across the University, nationally and internationally. Associate Professor Webster has been a member of the IPRIA Board since its inception and has served as Associate Director. She is also a Principal Research Fellow at the Melbourne Institute of Applied Economic and Social Research where she successfully manages the Industrial Economics research program.

Associate Professor Webster received her PhD from Cambridge University in the UK and her Master of Economics at Monash. She has previously worked at the Bureau of Immigration Research, the Victorian Government and the Centre of Policy Studies at Monash University. Her interests include the economics of innovation and intellectual property, intangible investment and labour economics. She has at various times been an advisor to IP Australia, Victorian Government Departments (Treasury and Finance; Premier and Cabinet; Auditor-General; Sustainability and Environment), Commonwealth Government Departments (Industry, Tourism and Resources; Education, Science and Training; Employment and Workplace Relations; Family and Community Services; Immigration and Multicultural Affairs), The Australian

Fair Pay Commission, OECD and the New Zealand Treasury. In 2008, she was part of Minister Kim Carr's Automotive Industry Review panel. Recent collaborative work has been undertaken with IBM, CTG, the Productivity Commission, Austrade, IBISWorld, the Australian Institute of Family Studies, Asialink and PricewaterhouseCoopers *inter alia*.

Associate Professor Webster has published over 60 articles in top tier journals in areas such as patent systems, trade mark and branding, measuring intangible assets, firm performance, environment, training and education, labour markets and wage determination.

Associate Professor Webster is delighted that she has retained the services of leading business, government and intellectual property specialists for IPRIA's high powered Advisory Board as it moves to implement the institute's ambitious and cutting edge research agenda.

IPRIA's Advisory Board members include:

- Mr Owen Malone, Intellectual Property Director, Foster's Group Limited (Chair)
- Mr Leon Allen, President, Institute of Patent and Trade Mark Attorneys of Australia
- Professor Vijoleta Braach-Maksvytis, Office of the Vice-Chancellor, University of Melbourne
- Mr David Byers, Committee for Economic Development of Australia
- Professor Joshua Gans, Professor of Management, Melbourne Business School
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- Dr Rhonda Smith, Senior Lecturer, Department of Economics, University of Melbourne
- Mr John Walker, President, Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association (AMPICTA)
- Associate Professor Beth Webster, Director, IPRIA

More information about IPRIA is available from <www.ipria.org>.

2008 Melbourne Institute Working Papers

- 19/08 – ‘Discrete Heterogeneity in the Impact of Health Shocks on Labour Market Outcomes’
Stefanie Schurer
- 18/08 – ‘Cyclical Government Spending, Income Inequality and Welfare in Small Open Economies’
G. C. Lim and Paul McNelis
- 17/08 – ‘The Australian Firearms Buyback and Its Effect on Gun Deaths’
Wang-Sheng Lee and Sandy Suardi
- 16/08 – ‘A Bayesian Simulation Approach to Inference on a Multi-State Latent Factor Intensity Model’
Chew Lian Chua, G. C. Lim and Penelope Smith
- 15/08 – ‘Abolishing the Tax-Free Threshold in Australia: Simulating Alternative Reforms’
John Creedy, Nicolas Hérault and Guyonne Kalb
- 14/08 – ‘Labour Market Outcomes of Second Generation Immigrants: How Heterogeneous Are They Really?’
Stefanie Schurer
- 13/08 – ‘Tax Policy Design and the Role of a Tax-Free Threshold’
John Creedy, Nicolas Hérault and Guyonne Kalb
- 12/08 – ‘The Effect of Financial Incentives on Quality of Care: The Case of Diabetes’
Anthony Scott, Stefanie Schurer, Paul H. Jensen and Peter Sivey
- 11/08 – ‘Credential Changes and Education Earnings Premia in Australia’
Michael Coelli and Roger Wilkins
- 10/08 – ‘A Two-Stage Estimation of Hospital Performance Using Mortality Outcome Measures: An Application Using Victorian Hospital Data’
C. L. Chua, Alfons Palangkaraya and Jongsay Yong
- 9/08 – ‘A Univariate Model of Aggregate Labour Productivity’
Robert Dixon and G. C. Lim
- 8/08 – ‘Be Wealthy to Stay Healthy: An Analysis of Older Australians Using the HILDA Survey’
Lixin Cai
- 7/08 – ‘Transitions from Casual Employment in Australia’
Hielke Buddelmeyer and Mark Wooden
- 6/08 – ‘Application Pendency Times and Outcomes across Four Patent Offices’
Paul H. Jensen, Alfons Palangkaraya and Elizabeth Webster
- 5/08 – ‘Is Hospital Treatment in Australia Inequitable? Evidence from the HILDA Survey’
Stephen Goodall and Anthony Scott
- 4/08 – ‘Forecasting Australian Macroeconomic Variables Using a Large Dataset’
Sarantis Tsiaplias and Chew Lian Chua
- 3/08 – ‘Can Consumer Sentiment and Its Components Forecast Australian GDP and Consumption?’
Chew Lian Chua and Sarantis Tsiaplias
- 2/08 – ‘The Determinants of Household Risky Asset Holdings: Background Risk and Other Factors’
Buly A. Cardak and Roger Wilkins
- 1/08 – ‘The Decline in Male Employment in Australia: A Cohort Analysis’
David Black, Yi-Ping Tseng and Roger Wilkins

Working Papers can be downloaded for free from www.melbourneinstitute.com.

Melbourne Institute News

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