

16 December 2013

Draft report into Geographic Labour Mobility, November 2013

Thank you for the opportunity to provide input to the draft report on Geographic Labour Mobility. The draft is well written and comprehensive, but I would like to raise for consideration some complementary issues that may add value to the final report.

Cost-Benefit Analysis

From my experience working in the Department of Transport and Regional Services and its various manifestations, as well as teaching cost-benefit analysis to public servants, I am acutely aware of a pervasive belief within government that increased employment should be treated as a benefit in project appraisals.

In the case of regional projects, for example, a key indicator often used by proponents of financial assistance to regional areas is the “number of jobs created”. The quantity cited is invariably an aggregation, whether the jobs are temporary (e.g. during the construction phase) or long-term in nature. Where increased employment in a particular town or region is treated as a benefit, project proponents do not always take into account any shift in employment or skills away from some other town or region.

Box 3.1 and the associated text make the valid point that, labour mobility may increase economic efficiency through better geographic matching of skills. However, in order to avoid any potential misrepresentation or misunderstanding of the Productivity Commission’s report, there would be merit in also including an explicit statement or separate box to explain that increased employment is not in itself a benefit. It would be useful in this regard to make the distinction between already employed labour and unemployed labour where a lower shadow price might be attributed to the latter so that projects subjected to social cost-benefit analysis gain in estimated viability.

Income contingent loans

Consideration might usefully be given by the Productivity Commission to discussing the potential use of income-contingent loans as a substitute for relocation incentive payments (draft report p. 193). While loans would need to be repaid, they might nevertheless offer a greater incentive to those considering relocation, particularly if they were not tied to specific purposes such as removal or travel costs (draft report p. 193).

An example of a relocation expense that might be faced is the purchase of new uniforms for schoolchildren where schools mandate specific local clothing requirements. Another example might be that an individual becomes aware of a means of acquiring a specific competency that will increase their chance of gaining employment elsewhere, or increasing their income, but formal training programs are not readily available in that specific field, or formal training sessions cannot be attended for some reason. General purpose relocation loans would permit greater flexibility and individual choice for persons considering relocation.

Bureaucratically established amounts of financial assistance may be well-intentioned, but they may not meet the actual needs of those considering moving to another area. Specific assistance can also have the disadvantage of being based on average costs and may be drawn on fully, even if cheaper options are available to recipients. Loans, even if they are not fully repaid by all recipients, would also involve lower budgetary outlays by governments.

Structural adjustment

While I do not have a specific reference, I recollect (possibly erroneously) that the Hawke government in the 1980s provided (or at least considered seriously) financial assistance to Hunter Valley coalminers to facilitate the closure of uneconomic mines. The assistance was intended to enable miners to relocate and purchase housing elsewhere, mainly because of a fall in house prices in the Hunter Valley. Should the information be readily available to the Commission, the case may provide a useful illustration of the use of financial incentives to smooth structural adjustment.

While the Commission's identification of stamp duty on the purchase of residential property is a good example of an impediment to relocation, it is predicated on the assumption that a person who relocates necessarily wishes to own a house in a new location. Individuals are also able to retain and rent out an existing house while themselves renting premises in a new location. Their choice will likely be determined by the relative financial merits of these alternatives, as well as their expectation of, or uncertainty about remaining in the new location for an extended period of time.

You may also wish to note typos involving "forgone" on pp. 160-161.

Yours sincerely,

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