Short Supply

2021

GENERATIONS

AN ECONOMICS STUDENT SOCIETY OF AUSTRALIA MAGAZINE

Photo by Edward Howell

Director's Welcome

I would like to extend my most sincere welcome to the seventh issue of Short Supply, an annual publication of the Economics Student Society of Australia. Launched in 2015, Short Supply served as a platform for students and industry professionals to share their views and insights on an annual theme of economic significance.

This year's issue is themed 'Generations', which, I thought centered conversations about economics and policy in a wide variety of domains, whether it's through theoretical macroeconomic models that emphasise passing on wealth via overlapping generations, or empirical studies in deciding equitable distributions of wealth, knowledge, and wellbeing across individuals deemed as 'different' in their generation. Surprisingly, record on economic phenomena related to intergenerational outcomes is a relatively recent development, i.e. right about when modern economics has evolved into a dinner table conversation following Keynes. It is interesting to see this tiny topic grow alongside economics, and to see perspectives from our slate of writers as well.

The discussion on generational gaps, whether related to economics or not, has definitely transcended pure theoretical studies, and it is of no mystery that this topic has been central to contemporary, informal discussion (bar the memes) about where each generation is headed to in times of crisis and prosperity. 2021 has been a time of crisis, and possibly hope as well, and as future economists the discussion of equitable distribution, and equitable treatment across individuals of different generations is definitely something interesting to ponder upon.

Overall, I am glad that I was able to contribute my bit to this project. All credit goes to our amazing writers and editors, alongside our industry writers, for which I would like to express my gratitude for their diverse, interesting, and insightful discussion on this topic.

Sao Yang Hew
Publications Director

Sticky Floors and Ceilings: How 21st Century Trends Glue Down Intergenerational Mobility

Irene Cam

Irene is an economics honours student at Monash University.

This article investigates recent trends in solidifying the bleak outlook of intergenerational mobility, especially against younger generations.

Introduction

Increased globalisation, automation and the rise of the digital economy are all defining trends of the 21st century. Undoubtedly, the technological advancements have created great economic gain. However, as with all change, there are winners and losers; the uneven distribution of these gains exacerbate inequality. For many decades intergenerational mobility has been on a long-term decline in developing countries and has been stagnant in developed countries. Now, COVID-19 has both reinforced these trends and introduced new obstacles.

Why does intergenerational mobility matter?

Economic mobility refers to the correlation of economic outcomes over time and the ability to move between income and wealth classes. While intra-generational mobility concerns an individual's outcomes over their lifetime, intergenerational mobility is the correlation of outcomes between parents and their children. Parent's earnings are often the main factor that explains one's own earnings; those born into a low-income family face headwinds from this 'sticky floor', while those born into the upper income class are likely to remain there for a long time due to the 'sticky ceiling'. We are interested in these measures because of their implications for inequality.

Economies with lower intergenerational mobility have greater inequality of opportunities. Not only is this a moral issue, but it is closely tied with resource misallocation due to the underutilisation of the skills of the disadvantaged. If there is little intergenerational change in socioeconomic outcomes, then there is little incentive for parents to invest in the human capital of their children. Given the importance of human capital as a driver of economic development, this hinders a nation's productivity and long-term growth.

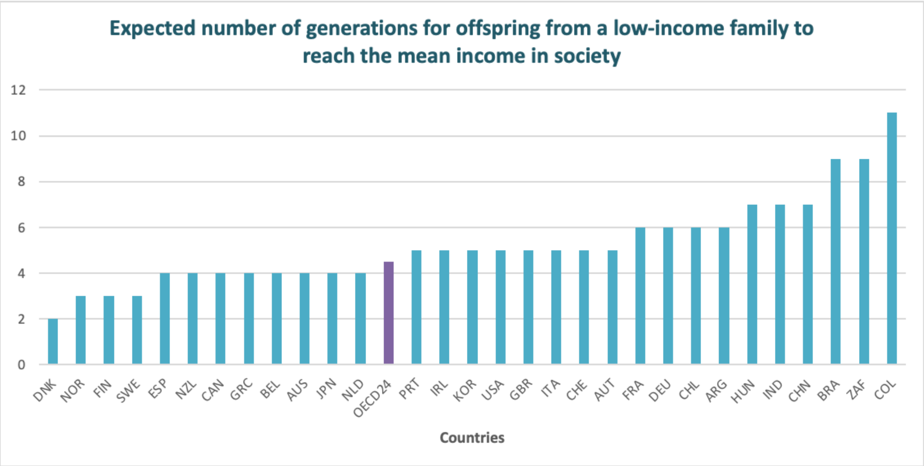
Industrialisation Then vs. Automation Now

Industrialisation has historically been viewed as a driver of greater equality in opportunities, though the limitations of tracking economic outcomes across many generations has produced mixed empirical results. The industrialisation theory of social mobility postulates that technological progress reduces intergenerational transmission of status by leading children away from declining sectors and towards new opportunities previously unavailable to their parents. Throughout the 19th and 20th century, industrial modernization also promoted a surge in the labour force participation of women, boosting economic mobility through inclusivity. Yet, Berger & Engzell (2020) find that the greater one's exposure to automation, the greater the depreciation of intergenerational mobility. Why may the fourth industrial revolution have failed to augment mobility in similar ways?

It is acknowledged that previously industrial revolutions have occurred in combination with strong economic growth and expanding institutions, while the backdrop for technological change in the last decade has been stagnant or low growth for many advanced countries. However, this view does not provide much insight into the forces behind increasing income and employment polarisation. The starkest example is in the US, where the shares of low- and high-income households have risen while the middle class has hollowed out. Others claim that these new AI technologies are labour displacing rather than labour enhancing. However, research thus far indicates that the substitution of routine jobs by robots have been balanced out by job creation, the complementary effects of technology and a general increase in productivity.

Berger & Engzell (2020) argue that ultimately, institutional and political dynamics are central to the development of mobility.

“Not only has COVID-19 widened educational inequalities directly, but disadvantaged youths also bear larger consequences from shocks to their parents’ employment outcomes.”



While America is known as the land of opportunity, the US has consistently ranked lower on global social mobility indices than other OECD countries. On the other hand, Nordic countries like Denmark and Norway score highly. From this simulation, Australia is relatively mobile compared to the OECD24 average. (Source: OECD Income Distribution Database, 2018.)

They find the negative consequences of automation are concentrated in areas with high top income shares, declining labour unions and lack of access to affordable education.

Declining Labour Shares and Skill-biased change

Socioeconomic persistence is enhanced by automation and the rise of superstar firms. Firstly, automation has facilitated the rise of superstar firms, like Facebook and Apple, that typically earn very high profits while owning low shares of labour. Thus, the owners of technology, intellectual and physical capital are the largest beneficiaries of automation. This market concentration has unevenly distributed productivity gains, perpetuating the income gap between those who depend on their labour and those who own capital.

Furthermore, automation leads to ‘skill-biased’ change that is not guaranteed to be offset by productivity gains. For example, simple technologies like self-checkout systems displace low-skilled cashiers without making the shopping process much more efficient. Even though automation has disproportionally affected the middle class who perform routine tasks more than the low-skilled, the low-income workers in the US who are displaced experience longer unemployment spells. This suggests that insufficient policies were enacted to upskill and train vulnerable workers for job displacement in the 21st century.

Education

The rising costs of education in many countries also impedes intergenerational mobility. Early research on Australia and Canada -countries that exhibit the atypical combination of high-income mobility and moderate income inequality- found early-year education to be the most defining factor of intergenerational transmission. It is important not only to promote access to education, but to focus public spending on generating better minimum educational outcomes; high median scores in mathematics, reading and the sciences are associated with greater intergenerational mobility.

The COVID generation

The negative impacts of COVID-19 on labour markets and educational institutions will further reinforce a decline in intergenerational mobility by both directly and indirectly affecting youth below the age of 25. Working from home has accelerated automation in many sectors and led to structural changes to the nature of work, while youth face educational scarring as the result of prolonged lockdowns. The effects are most pronounced for young individuals from low-income households.

Firstly, extensive lockdowns and social distancing requirements directly affect youths by disrupting classroom learning. These disruptions can lead to educational scarring, that is, long-lasting poor educational, employment and economic outcomes. This effect is largest at key education transition points, such as from 6th grade to high school or in the transition from high school to university, as failing to pass these thresholds can lead to significantly lower lifetime earnings potential. In the UK, approximately 2.5 million children received no schooling during the 2020 lockdown. This group was over-represented by public school and lower-income students, who have less access to the technology required for at-home learning.

Not only has COVID-19 widened educational inequalities directly, but disadvantaged youths also bear larger consequences from shocks to their parents’ employment outcomes. Hupkau et al (2020) find that in the UK less highly educated parents, and therefore lower-income parents, are more likely to have experienced earning losses. Those able to work from home are on average richer individuals and significantly less likely to lose their jobs. Meanwhile, workers in low-income deciles generally have less flexibility to work from home and are disproportionately affected by extensive lockdowns. These losses have intergenerational effects, whereby the children of affected parents are less likely to have access to quality educational resources. This disadvantage is also manifested in ways beyond economic outcomes, such as poorer household environments stemming from increased mental health issues.

Conclusion

In contrary to the expectations of technological developments, the nature of automation in the 21st century has continued to glue down intergenerational mobility. Furthermore, the recent labour market and educational shocks from COVID-19 also contribute to rising economic and educational inequalities. To support greater mobility and long-term growth going forward, it will be important for policymakers to reduce these inequalities faced by the most vulnerable populations.

(Source: A Broken Social Elevator? How to promote social mobility, 2018)

Measuring inequity across Generations: The Intergenerational Equity Index in Australia

Jack Myers

Could we summarise inequitable outcomes into single values? Jack Myers explains.

The results are in: the young are lazy and entitled, and Boomers care more about their dividend than the future of the planet. Or at least that's what prevailing stereotypes would have us believe. The differences between generations is an undying debate that is covered extensively across the media and academia. The latter have coined the term "Intergenerational Equity (IE)" to capture the concept of fairness between generations. It is primarily measured through standards of living, both on a relative basis between generations and across time.

While a 2017 survey found that 69% of Australian participants believed their children would be worse off financially than themselves, it has been difficult to grasp where this sentiment stems from and measure generational differences on an aggregate yet comparable basis. Recent efforts have worked to collate an Intergenerational Equity Index: a range of indicators across numerous domains that are combined to produce easily-digestible metrics of welfare across generations.

The Australian Actuaries Intergenerational Equity Index (AAIEI) was published in August 2020 and is the most recent iteration of an IE Index for Australia. It is comprised of six wellbeing domains; Housing, Economic, Health, Social, Education and Environment, and includes multiple indicators from within each. For example, the Health field factors in life expectancy, obesity, disability and suicide rates. These indicators are observed for 3 primary age bands: 25-34, 45-54 and 65-74. The index takes a cross-sectional approach, where it measures how the selected indicators change within the given age brackets over time (E.g., House Ownership rate for 25–34-year-olds in 2000 vs 25-34-year-olds in 2020).

There are two central methods by which the index' findings can be analysed. The first is by looking at the change in each age bracket's absolute index values, in order to dissect the trends of different indicators and domains over time. More pertinent to the IE discussion however, is the analysis of the respective age brackets in relative terms. This is achieved by comparing how the differential between their absolute values changes over time. Through this, we arrive at an effective method of weighing up each generations' circumstances against each other. So, what did the 2020 AAIEI find?

Table 3 – Domains of the AAIEI

Economic and fiscal	How does the Australian economy and government spending affect intergenerational equity? Spans income, wealth, economic growth, public debt and age-specific fiscal spending.
Housing	Do people have access to good quality and affordable housing?
Health and disability	How are health outcomes changing for different generations?
Social	How are people experiencing life and being a part of society? How are they interacting with systems like justice and child protection?
Education	Are people becoming better educated over time?
Environment	Is the environment changing in ways likely to adversely affect current and future generations?

Well, it doesn't exactly paint a picture of sunshine and roses. As Figure 1 details, the index has remained flat-to-lower for both 25-34-year-olds and 45-54-year-olds, but has risen sharply for 65-74-year-olds in the past decade. As such, generational inequity in Australia is now sitting at its widest recorded point in the last two decades. While educational, social and health outcomes have risen across the board, the widening gap can be attributed specifically to adverse changes in housing, economic and environmental conditions for younger generations (coupled with improved housing and economic conditions for 65-74-year-olds).

Housing

Housing conditions have been a major driver in widening the IE gap. Naturally, home ownership rates climb steadily higher as we age, due to individuals having more time to save and accumulate assets over their working life. However, while the percentage of home owners in the 65-74 age group has remained nearly flat over the last 20 years, home ownership rates

in the 25-34 age bracket have plunged from 51% down to a meagre 34% over the same period. This should come as no surprise, given the rapid rise in property prices experienced across the country in recent years. It represents a double-edged sword for IE; those owning property enjoy rising prosperity as their assets appreciate, while those without are dragged down with the burden of their rent.

Economic & Fiscal

This domain is given the greatest weight across the index, due to its propensity to improve welfare outcomes across numerous other areas. Net incomes have risen in a uniform manner across age brackets, however net wealth has increased disproportionately for older generations relative to younger. Housing plays a big part in this, but also appreciation in other asset classes as a result of the low interest rate environment post-GFC. Fiscal data shows that government expenditure has risen more for the elderly on a per-capita basis than all other age brackets, and the rising national debt levels are of course more of a burden on those that have not yet retired (and thus must pay income taxes).

Environmental

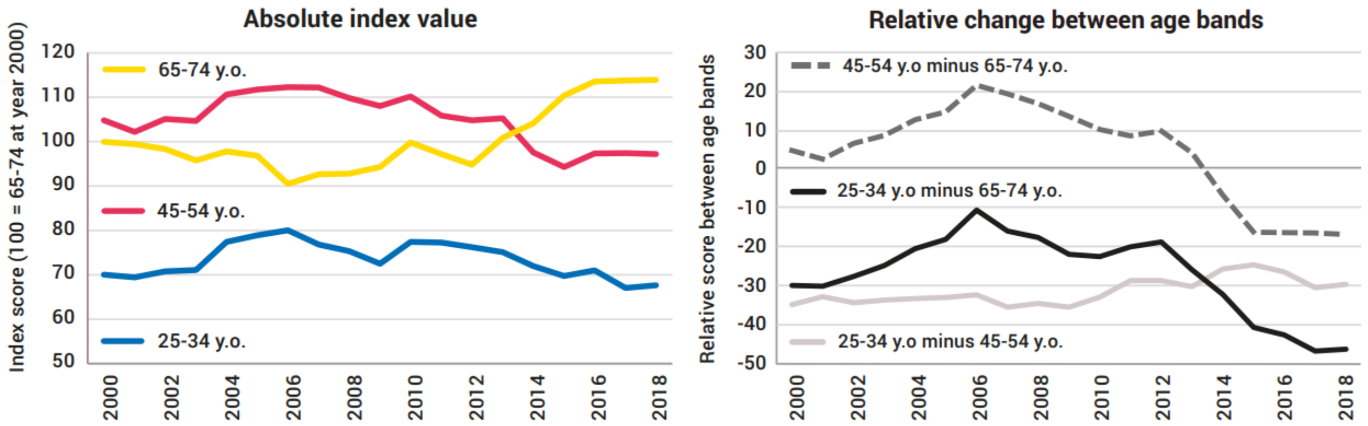
Environmental concerns are one of the most heavily publicised points of tension between generations and account for the final measured source of rising inequity in the index. While we all experience the same declines in real time, remember that the index measures how current numbers stack up against preceding generations at the same ages. The indicators used include levels of rainfall, biodiversity, atmospheric CO^2 and average temperatures, which have all worsened significantly over the study period.

The index doesn't claim to be perfect, and there are a handful of considerations to keep in mind when interpreting its results. The most important being that holistic living standards are primarily subjective, meaning that the weighting of each domain is by no means an accurate representation of how everybody values their quality of life. Additionally, as it was compiled during COVID-19, the full effects of the changes that occurred to areas such as employment and welfare are not wholly explicated in the index.

Summary Jack

"Generational inequity in Australia is now sitting at its widest recorded point in the last two decades"

Figure 1 – Main results of the Australian Actuaries Intergenerational Equity Index (AAIEI)



The Evolution of the Music Festival Industry – is the rising price tag justified?

Lauren Savige

Lauren explores the change in the music festival industry in relation to behavioural economics and the idea of an experience economy.

A hallmark of youth popular culture, music festivals are drawing in larger crowds than ever before. In the last few decades, we have seen a spike in the number of music festival attendees as these events have moved from the fringe to the mainstream.

Ticket prices have also dramatically increased between 1969's Woodstock, a pioneer of the modern festival format, and today's Coachella or equivalent. In 1979, tickets to the UK's biggest music festival, Glastonbury Festival, cost £5. Had ticket prices kept in line with inflation, tickets would be five times as expensive today. However, tickets to the festival cost £248, meaning they are 50 times more expensive - and this is before considering additional costs such as transport, parking/camping fees, food and drinks. How did music festivals get so expensive?

Talent, Toilets and the Festival Experience

Costs of running a festival have increased as organisers have improved the quality of facilities and expanded offerings. Standing in the mud among the rain-soaked crowds at Woodstock is hardly comparable to frolicking around the Californian desert among the pop-up art installations and glamping tents at Coachella. Woodstock festival saw shortages of food, water and sanitation services – there was only one toilet per 833 guests.

In addition to maintaining an appropriate toilet to attendee ratio, modern festivals have also become more elaborate. Attendees now expect festivals to offer a range of non-music experiences like Ferris wheels, yoga tents, pop-up waterparks and art installations. These costs add up.

However, one expense item has grown to dominate music festival budgets – the talent. In 1969, Jimi Hendrix was paid the equivalent of $125,000 USD in today's money for performing the closing set at Woodstock. In 2019, Ariana Grande headlined Coachella for $8 million USD, meaning that Grande was paid 64 times more than Hendrix. This sharp jump in artist fees can be attributed to digital downloading and streaming revolutionising the music industry.

Up until the 1990s, artists heavily relied on recorded music sales for income and used live events like concerts and festivals as a promotional tool to boost record sales. Today, it can be difficult for artists to make a living off of streaming income alone, with services such as Spotify paying a royalty of roughly US $0.00348 per stream. According to Economist Alan Krueger, only 28% of artists earned any money at all from streaming in 2018, with the median amount being only $100 USD. In response to this trend, artists began to rely on revenue from live performances to earn a living. In 2019, 75% of an artists' income came from live touring compared to only about 30% in the 80s and 90s.

But of course, not all bands at Coachella are paid millions. In fact, the music industry is renowned for having a high

Photo by Ollie Millington from Redferns

"So maybe festivals are expensive, but perhaps creating memories with friends and enjoying the music and atmosphere is worth it."

degree of income inequality. The term 'Superstar effect' can be used to describe this phenomenon, where a few top performers earn a disproportionate share of income in the industry. Streaming services' algorithms and curated playlists may play a role in reinforcing bandwagon effects, making popular artists even more popular. In 1982, the top 1% of artists earned 26% of all live concert revenue, in 2019, the top 1% of artists earn 60% of revenue. This trend has increased the bargaining power, and therefore the cost, of stars like Ariana Grande at music festivals.

The rise of the experience economy

But this is not only a supply side issue – demand for festivals has significantly increased as well. Previously considered a celebration of youth counterculture, festivals have become mainstream among Millennials and Gen-Z consumers. Despite their high price tags, 14.7 million Millennials in the US attend at least one music festival a year and popular music festivals continue to sell out within hours, indicating this generation's high willingness to pay for such experiences.

These events provide attendees with a rich, cultural experience that is difficult to replicate. This offering fits neatly into the model of the "experience economy" – a term coined by B Joseph Pine II and James H Gilmore to describe the scenario where firms "intentionally use services as the stage, and goods as props to engage individual customers in a way that creates a memorable event".

Millennials and Gen-Zers, which make up majority of festival goers in Australia, are big fans of the experience economy. According to a 2019 Deloitte survey, these generations highly value experiences over material goods, with travelling and seeing the world topping the list of the generations' ambitions over home ownership. Social media has fuelled growth in the experience economy as young people are increasingly eager to share with their friends on Instagram how they are "living their best life" at Coachella or a festival of the like.

Attending a music festival has become a rite of passage for youth in Australia and many other parts of the world. While attending one might set you back a few hundred, even thousands, of dollars, they do offer an immersive experience and an escape from reality. There is a growing field of literature which suggests that socially shared experiences, like spending a weekend at a music festival with friends, are valued more than material possessions or experiences enacted alone. So maybe festivals are expensive, but perhaps creating memories with friends and enjoying the music and atmosphere is worth it.

Intergenerational Outcomes for Humanitarian Migrants

Michelle Shi – Deloitte Access Economics

Blurb blurb blurb

Introduction

Australia has a long history of welcoming and supporting refugee and humanitarian arrivals, having settled more than 880,000 refugees and others in humanitarian need over the last 70 years. Humanitarian migrants are significant contributors to Australian society, bringing diverse experiences, languages, and cultures to Australia.

In 2019, Oxfam Australia commissioned Deloitte Access Economics to analyse the economic and social impact of increasing Australia's humanitarian migrant intake. The impacts of migration on labour supply were a key component of the economic modelling, which examined labour force characteristics and contributions of both first and second-generation humanitarian migrants.

The analysis suggests there is strong intergenerational mobility for humanitarian migrants in Australia, with labour force outcomes improving substantially over time and between generations. Outcomes for second generation humanitarian migrants improve greatly compared to those observed for recently arrived migrants – indicating that economic mobility (with the support of settlement services, integration and time) is possible and being achieved by humanitarian migrants, and in particular their children, in Australia.

Labour force participation

Labour force outcomes improve for humanitarian migrants over time, with second generation humanitarian migrants reaching similar labour force participation rates to the broader Australian population. This is despite first generation migrants having poorer labour force outcomes, especially for those who have recently arrived in Australia.

As seen in Chart 1, the labour force participation rate of humanitarian migrants is low for recently arrived migrants. A large share (more than 60%) of humanitarian migrants who arrived in the last 5 years are not in the labour force, as these migrants are often studying or training when they first arrive. This participation rate improves with the length of time migrants spend in Australia, with the participation rate for migrants who arrived in the last 5 years (34.7 per cent) jumping to 59.2 per cent for those who arrived 10 – 15 years ago. Second generation migrants have a higher participation rate still at 75.1 per cent, which is very similar to the 76.4 per cent participation rate for the broader Australian population.

Low initial participation rates on average for recently arrived migrants is likely attributable to significant language, cultural and skill barriers. Engagement in education and training, participation in settlement services and integration into local communities all contribute to improved labour force outcomes over time for first generation humanitarian migrants. Second generation humanitarian migrants benefit from not facing the same initial language and cultural barriers – though they undoubtedly face unique cultural and economic barriers of their own.

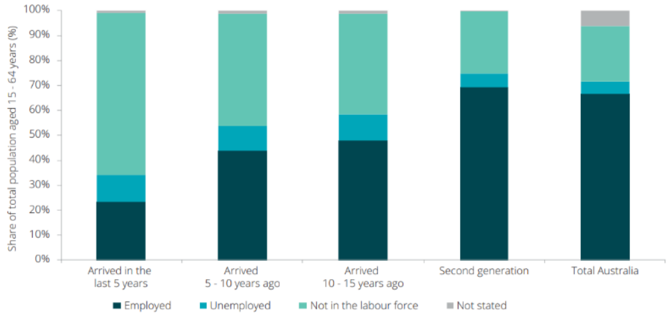


Chart 1: Labour force status by year of arrival, humanitarian migrants and total of Australia, persons aged 15-64 years (2016).

Source: 2016 Census of Population and Housing (ABS), 2016 Australian Census and Migrants Integrated Dataset (ABS), Deloitte Access Economics.

Educational outcomes

Humanitarian migrants, particularly those who have recently arrived in Australia, tend to report lower levels of educational attainment. A significant proportion (more than 45% of those arriving in the past 5 years) hold a Year 9 or lower educational attainment. However, a higher share of humanitarian migrants than the average Australian population, are actively engaged in education and training – especially when they first arrive in Australia. In 2016, 36% of working age first-generation humanitarian migrants were participating in education and training, compared to 17% of the broader Australian population (and 24% of second-generation humanitarian migrants).

On average, second generation humanitarian migrants have higher levels of education attainment than first-generation migrants, as shown in Chart 2. A significant proportion engage in tertiary study, at similar rates as the broader Australian population.

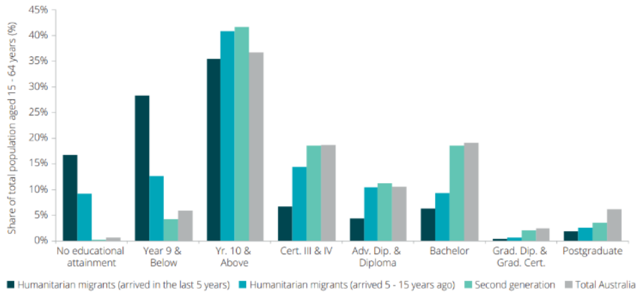


Chart 2: Highest level of educational attainment, humanitarian migrants and total Australia, aged 15-64 years (2016).

Source: 2016 Census of Population and Housing (ABS), 2016 Australian Census and Migrants Integrated Dataset (ABS), Deloitte Access Economics; excludes not stated.

Settlement and support services

An important aspect of integration and support for humanitarian migrants is the availability of settlement services, including orientation activities, English language training and other practical supports. Such services play a critical role particularly when humanitarian migrants first arrive in Australia and face multiple cultural and economic barriers.
These settlement services (along with broader community integration) feed into the improved labour force outcomes observed above. These services not only support humanitarian migrants in their economic pursuits (by preparing them for employment and improving language capabilities), they are also an important form of community engagement and integration. While second generation humanitarian migrants may not use or interact with settlement services directly, the impact of their parent's engagement of such services flows through to their own improved labour force and educational outcomes.

Conclusion

Despite significant barriers faced by recently arrived humanitarian migrants, there are strong indicators that labour force and educational outcomes improve with time and across generations. The convergence of second-generation humanitarian migrant labour force outcomes with those of the broader Australian population is an important achievement, reinforcing the economic contribution of humanitarian migrants to Australia's economy and society.

Continued support, review and development of settlement services and the Humanitarian Migration Program, especially in these times of continued uncertainty and border closures, is highly important to continue supporting humanitarian migrants – with impacts flowing through generations.

Michelle Shi is an economist at Deloitte Access Economics

What was the Expected Economy that the Gen Z Would Live In, and How They Adapt to a New Stage of the Economy?

Lam Do

Lam Do explores ways in which Generation Z has, and will adapt to the future economy.

A prosperous economy in the waiting

The economy before the pandemic was not fully recovered from the global financial crisis (2008 – 2009), nevertheless, it was on track to achieve the pre-crisis level. Macroeconomic factors such as the unemployment rate, the inflation rate or the household debt burdens were under control. According to the data from World Bank, the GDP annual growth has remained stable around 2%. Also, the unemployment rate in OECD countries fell from over 8% during the period to 5.3% in 2019.

Under that circumstance, gen Z was expected to contribute to the rehabilitation, especially for those who were in their 20s (1997 – 2000) since firstly, this generation was expected to be the most educated generation ever. Findings from Pew Research Center showed that in 2018, 57% of people who were from 18 to 21 years old and no longer in high school enrolled in college. The numbers for millennials (in 2003), and gen X (1987) were 52% and 43%, respectively. Secondly, the generation was anticipated to enjoy the fastest growth in the economic power when the income that it could make would increase up to fivefold, to $33 trillion by 2030.

The pandemic that swept it all

The global economy has been hit hard by the pandemic. The real GDP of advanced countries was estimated to decrease by 5.4% in 2020. Even though the output is expected to grow by 4% in 2021, the level is still well-below the pre-pandemic figure.

The situation of gen Z was more severe. Service industries such as hospitality or tourism observed the overrepresentation of gen Z, hence, they faced extremely negative impacts when COVID-19 occurred. In particular, the unemployment rate of gen Z was around 2 times higher than other generations in almost every OECD country.

For example, while the rate for other age groups were 5%, the figures for gen Z was 14.3%. The unemployment is temporary; however, its consequences can be permanent. The older gen Zs have graduated from colleges recently, therefore, being unemployed make them less experienced, which in turns reduced their lifetime income. Difficulties in finding jobs can lead to the higher acceptance of lower salary. As a result, their lifetime financial statement will be worsened. Having the same conclusion, a research from CEPR shows that long periods of youth unemployment can reduce lifetime income by 2%.

For those who are in the early stage in gen Z, labour force participation is not their main concern. However, their education has been disrupted. School's closure, online learning, etc. has been particularly problematic for children, especially for those who are from disadvantaged households. Given the importance of education on their future income, the disruption will impact negatively on their economic situation.

The preparation for a less prosperous future

Fortunately, gen Z has been preparing for uncertainty. They are more likely to be fiscally conservative thanks to the experience from their parents during the global financial crisis, and now, the pandemic. As a result, they prepare for any potential downturn in their finance. For example, saving is an importance part of their lives with 60% of the people already set up their savings accounts. In addition, 64% of the people have already started to research or plan their financial statements. Surprisingly, the average starting age was just 13. Moreover, gen Z will be a main contributor to the digital economy. This generation is said to be true digital natives. They show the higher levels of digital competence, They show higher

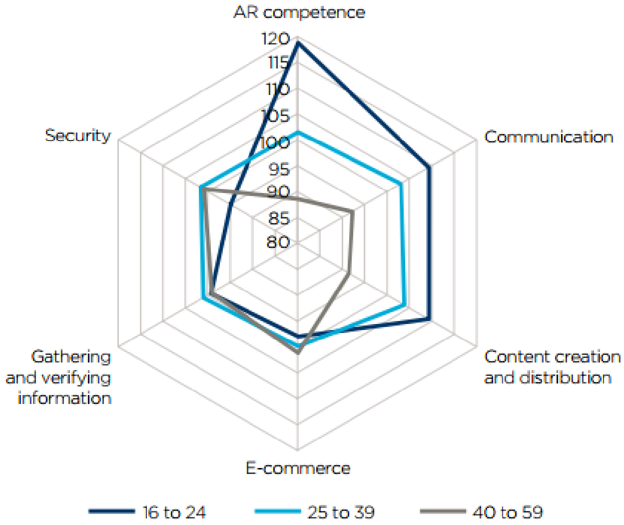
"In spite of disadvantages, thanks to their characteristics and preparation, [the Gen Z] are expected to be the main contributor to the recovery of the global economy."

Photo by FatCamera from GettyImages

levels of digital competence, they adapt well to the technology, and they are extremely capable in augmented reality (AR). These characteristics make them the right generation to make the boom of the digital economy.

Fig. 2: Digital competence score by age cohort: global sample

Index, global average = 100



Source: YouGov data, Oxford Economics analysis

Conclusion

Gen Z is said to be the most disruptive generation. They grew up seeing their parents went through the crisis, and now they are living during the pandemic. In spite of being disadvantaged, thanks to their characteristics and preparation, they are expected to be the main contributor to the recovery of the global economy.

The Victorian Government's new early intervention framework – seeking to change lives and avoid costly interventions

The Department of Treasury and Finance Victoria

The Victorian Government funds a range of services to support the wellbeing of Victorians. From universal services such as health and education, through to highly targeted services for vulnerable cohorts such as child protection and youth justice programs. These vary in terms of their intensity, duration, cost, as well as when they are accessed in a person's life.

Current Government spending is disproportionally directed towards meeting acute needs, often when people are in crisis. Services tend to offer intensive assistance (e.g. hospital admissions), respond to crises (e.g. ambulance transport) or are options of last resort (e.g. placement of children into out of home care or jail). While these are essential, there are opportunities to provide more timely and effective assistance through earlier interventions – supporting people as new needs emerge and minimising the likelihood of their needs escalating.

There is growing recognition that an earlier approach not only benefits the individual, but in many instances, also the broader service system – when people receive timely support, the likelihood of needing more intensive and/or intrusive services in the future is reduced. This seeks to improve the efficiency of the service system over time by investing now to save later.

Introducing the Early Intervention Investment Framework

Recognising this dual payoff, Government has introduced the Early Intervention Investment Framework (EIIF). The EIIF takes an investment approach to funding early intervention services. The Framework's key objective is to **link investment to impact and quantify this impact.**

Measuring impact helps Government understand what was delivered for the service user (e.g. improved experience and wellbeing), as well as the flow-on effects on future demand for government services.

Example - Journey to Social Inclusion

The Journey to Social Inclusion program helps people experiencing sustained and chronic homelessness (i.e. sleeping rough for at least a year and/or have been homeless three or more times over the past three years). This cohort has extremely high levels of disadvantage including chronic mental and physical health, unemployment, and psychological distress. They are high users of Government services (e.g. hospitals, mental health, correctional services and alcohol and other drug services).

The program provides intensive wrap-around support for up to three years and includes accommodation. Clients are assisted to sustain their housing, gain training and employment and establish stronger social connections. The aim is to help people build their capability to manage their lives and grow their resilience in meeting challenges.

The program has demonstrated significant success. Almost 93 per cent of participants were in stable housing after two years and had reduced their hospital bed use by 62 per cent. These are examples of improved outcomes for the service user that the EIIF seeks to measure across all its funded programs.

Reductions in downstream service use (e.g. hospital beds) are estimated to produce a return on investment up to \$1.84 for every \$1 invested. This is an example of how avoided costs associated with investment can be measured.

To capture a program's impact the EIIF will measure:

Outcomes: Each program funded under the Framework specifies the changes it seeks to achieve through defined outcome measures which are tracked over time. These measures seek to demonstrate the improvement in the lived experience of service users as well as the service system.

Impact on demand for future support services : These measures quantify the expected reduction in future service usage compared to current trends, giving an estimate of avoided costs to government. Quantifying the avoided costs is important for demonstrating the value of Government's investment.

EIIF in the 2021-2022 budget

The 2021-22 Victorian Budget provided $324 million over four years for ten programs under the EIIF. The package includes initiatives that assist a diverse range of Victorians including people with chronic health conditions or patients waiting to receive elective surgery; Victorians who are at risk of chronic homelessness; vulnerable families at risk of further involvement with the child protection system; and disengaged young people.
The Budget also committed $15.4 million in funding for the Department of Treasury and Finance to implement the EIIF, including further developing methods to measure and track outcomes and the impacts of interventions on future service demand.

Challenges of measuring impact

Measuring impact is not always easy. A key challenge is identifying specific measures that effectively capture the change in individuals' lived experience and the effects on the service system. The construction of measures requires consideration of the following:

- **Data availability –** The sophistication of impact measurement is informed by the nature of available data. It can draw on linked administrative data (e.g. linking school attendance with mental health service usage) and/or using tailored measurement tools (e.g. surveying users about their experiences). When selecting data to inform outcome measures it must be:
    - **Robust –** minimal missing or inaccurate data with a consistent internal logic
    - **Timely -** available when it is needed (e.g. yearly reporting schedules)
    - **Efficient –** a trade-off between ease of access and value may exist. Optimizing this trade-off is essential
    - **Ethical –** individuals must have provided consent for their data to be used.
- **Attribution –** Are observed changes the result of the program? Identifying a change in someone's experience or outcomes is not enough to say a program has successfully caused those changes. There needs to be a high degree of confidence that the program likely caused the observed outcomes. This is difficult in the complex and closely integrated social service system. Trying to attribute impact often requires detailed analysis of complex intertemporal panel data with a defined counterfactual scenario (e.g. difference-in-difference or propensity score matching).

The Department of Treasury and Finance is working with departments and service providers to refine and implement the EIIF so that the benefits of Government's investment in early intervention are quantified and help inform future Government resource allocation decisions.

GENERalisATIONs

Danielle Attwood

Danielle Attwood is a fourth year student studying Law and Commerce, with a major in economics. With a keen interest in politics and policy, Danielle enjoys reading widely and engaging in university clubs dedicated to social change.

Birth years may be the defining characteristic of a generation, however, it is far from the determining factor of its social or economic identity. A generation is more solidly perceived as the views and values it endorses and brings into the mainstream as it comes of age. Standing behind each generation is the long-held capitalist belief in societal progression. Ideally, each generation should be better off than the generation before it by experiencing higher material and non-material living standards. The maturation of each generation therefore impacts the trajectory of the economy for decades after, as their desire for social and political change snowballs into an economic force.

As Baby Boomers filter out of the workforce and into retirement, Gen Z is the generation to watch as the first of its 1997-2015 cohort begin their professional life. This is the period in which Gen Z may falter or thrive as the group begins to define themselves beyond their parents' and grandparents' perceptions of them.

What's in a Generation

The term 'generations' entered into the mainstream vernacular via a 1991 book of the same name by sociologists William Strauss and Neil Howe, which has since become a contentious topic of debate (and arguments). Strauss and Howe contended that a country's birth-rate followed a cyclical pattern of 20-year 'turnings', bookended by major historical events (such as the American Civil War and World War II). Then, from these life-defining events, generational traits emerge. For instance, Baby Boomers have strong family values, established in their post-war upbringing.

The work of Strauss and Howe has, however, also been branded as a pseudo-science (equivalent to astrology) as it is based on their vague perceptions and not hard evidence. The cyclical nature of their theoretical construct has also raised issues for a number of reasons. For example, couples are generally choosing to have children later and later in life

> **"The maturation of each generation therefore impacts the trajectory of the economy for decades after"**

– throwing off their prediction that each new generation has striking similarities with their grandparents' generation but is dissimilar to their parental generation. Further, Strauss and Howe appear to have disregarded general time trends as a result of economic empowerment among the masses, and persistent development of human civilisation from the start of their observational study. Over time, it is argued that these cycles will become significantly more fragmented and unhelpful. [10]

Contrarily, it has been argued that the birth-rate, and its cyclical nature, is actually life-predicting, rather than defining. In this line of thought, the birth-rate is a symptom of the economic and social optimism of the day – when people are confident and happy with their place in the world, they have more children and vice versa. Generally speaking, this would also bring the population growth in line with historic events as it is commonly acknowledged that the birth-rate declines post-disasters occurring. Imminently, births across Australia are expected to fall as the economic uncertainty of having a child in a pandemic puts Millennials and Gen Zers off having children.

Utility and Pitfalls of a Generation

Regardless of which explanation you subscribe to, stereotypical generational constructs continue to be used in marketing and branding endeavours. Helpfully, generational qualities create a profile of an entire group of people bound by shared historical context. While these descriptions can be helpful in establishing context, they can both be negative - Millennials will never afford houses as they spend too much on smashed avo – or positive - Gen Zers are amazing with technology. Importantly, the attributes assigned to each generation are a convenient method of segmenting and then targeting specific consumer markets. Grouping cohorts of people into generations is also a convenient method of analysing variances in characteristics across lifetimes. They allow us to compare the attitudes and views of parents compared to their children, at similar stages.

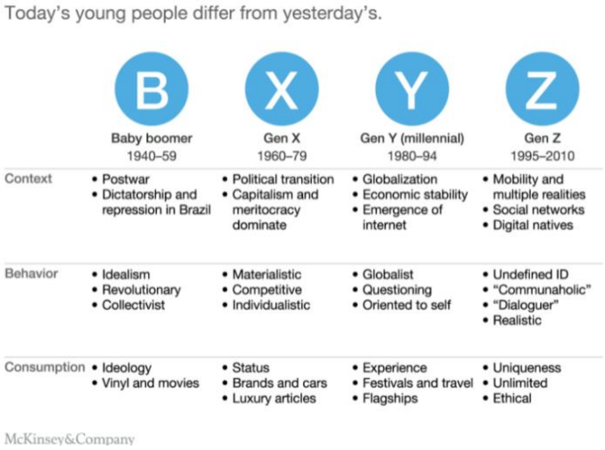
In the negative, however, generations are, by design, a form of stereotyping a whole class of people who, though experiencing common historical events, are different in terms of race, culture and education. While this short hand is convenient for consultants and marketers alike, they all also have the effect of pitting the old against the young. For instance, Baby Boomers are hardworking, but Millennials are lazy.

It should be noted however that the actual age brackets for most generations are contestable but they typically range between 15-20 years. This range indicates the random nature of the generation construct, which really aims at delineating the population around an arbitrary deadline. Further, this stratification is ostensibly more difficult, and generally unscientific, as the landmark factors of generational analysis are gradual and generally unperceived by the community. Since the 1950s baby boom, following generations however have been markedly less obvious in announcing themselves. Instead, they are best divided based on the role and influence that technology (ie the internet) has had on their life. Gen Z grew up with the internet and the newest generation (tentatively called Generation Alpha) has grown up on and with technology. [19]

DEFINING GEN Z: Economic, Social and Political Power

Generations generate social, economic and political power which has the ability to radically change the living standards and expectations of future citizens. They are representative of social progress and mobility. As the guard changes and Gen Z takes the helm, it is important to reflect on the changes wrought by this leadership flux.

Gen Z is (so far) defined by 9/11, the GFC and COVID-19. These pessimistic events however have, in a sense, been overshadowed and outclassed by the optimism that technological advances sow. According to McKinsey, Gen Z is defined by its search for trust, authenticity, and ethical outcomes. They see the world and its varied institutions as a system that must work for them, rather than a system they work for – spurred by a desire for convenience


Today's young people differ from yesterday's.

	B Baby boomer 1940–59	X Gen X 1960–79	Y Gen Y (millennial) 1980–94	Z Gen Z 1995–2010
Context	• Postwar • Dictatorship and repression in Brazil	• Political transition • Capitalism and meritocracy dominate	• Globalization • Economic stability • Emergence of internet	• Mobility and multiple realities • Social networks • Digital natives
Behavior	• Idealism • Revolutionary • Collectivist	• Materialistic • Competitive • Individualistic	• Globalist • Questioning • Oriented to self	• Undefined ID • "Communaholic" • "Dialoguer" • Realistic
Consumption	• Ideology • Vinyl and movies	• Status • Brands and cars • Luxury articles	• Experience • Festivals and travel • Flagships	• Uniqueness • Unlimited • Ethical

McKinsey&Company

above all else. [22] This was exhibited by the recent GameStop debacle and the Gen Z driven rise in Buy-Now-Pay-Later schemes.

Economically, Gen Z stands to be the most economically powerful generation within the next 10 years, as their income outstrips Millennials and Boomers upon their retirement. Gen Z is predicted to soon be the largest driver of consumption, with a buying power of $US143 billion. They will likely be the most educated conglomerate of people in history. With this education, comes a responsibility to be politically engaged – a mantle Gen Z appears to willingly accept.

On the whole, it seems too early to define Gen Z precisely. However, it appears likely that they will face many challenges which separate them from the trials faced by generations gone by.

"They will likely be the most educated conglomerate of people in history"

Are Millenials the Unluckiest Generation?

Geoffrey Go

Geoffrey is an economics honours student at Monash University, primarily interested in the study of industrial organisation. In his spare time, he enjoys browsing Ozbargain excessively and looking for deals to “save money” by buying impulsively.

One of the key roles of each generation is to improve the living standards of the next. However, millennials may be worse off having experienced the global financial crisis and the COVID-19 recession. In this article, Geoffrey investigates the misfortune of millennials and whether they really are the ‘unluckiest generation’.

Intro

With the recent COVID-19 pandemic resulting in the deepest recession ever experienced within Australia, there has been renewed discussion on the difficulties faced by millennials,which we define as individuals born between 1981-1996. Having experienced the Global Financial Crisis (GFC) in 2008 and now the COVID-19 recession, there are significant concerns regarding their economic misfortune and the potential long-term consequences to their career and wealth in the long run. Consequently, millennials have been dubbed the ‘unluckiest generation’. Relative to preceding generations, we will consider whether this title is reasonable by exploring the economic impacts experienced by millennials. However, there are many other non-material aspects that must be considered, for which we will explore as well.

The Economy

The GFC was one of the deepest recessions experienced globally. Although Australia escaped a technical recession, Australia still faced slowing growth with a sharp increase in the unemployment rate following the GFC. Many millennials at the time had just begun, or were early into, their careers only to face an uncertain and difficult labour market. While this may seem like a short-term issue, there is empirical evidence of ‘scarring’ where workers experience long-term consequences of an adverse labour market shock, including a long spell of unemployment, lower wages and wage growth, and more likely to be employed in relatively low-skilled occupation. The Productivity Commission found this particularly true for young people following the GFC. While these consequences are largely economic in nature, poor economic outcomes are known to translate into poorer mental health.

Further evidence from the Productivity Commission revealed that from 2008-2018, young people’s real disposable income had actually decreased, with those aged 25-34 experiencing a 0.7% decline per year on average, while real wages stagnated with a 0.01% decline each year on average. In contrast, all of the older age groups experienced an increase in their real incomes. Those aged 55-64 (who are not consideredmillennials) enjoyed an average of 0.91% increase in their real wage each year over the decade.

However, evidence also showed that the impacts of scarring are not permanent, with the impact of the initial shock fading over time to roughly 0 after 10 years. This suggests that by 2018, the effects of the GFC have largely faded. Unfortunately, 2 years later, the COVID-19 recession occurred, resulting in the largest economic decline ever experienced in Australia. Unsurprisingly, there are concerns that the economic impacts of COVID-19 will compound the scarring experienced by millennials and Gen Z Australians. While the Australian economy and labour market has recovered remarkably over the past several months, this does not change the nature of scarring in which the COVID-19 recession is likely to have a long-term impact on many Australians, in particular, millennials and 2020 graduates.

In general, each generation has experienced higher income, wealth, and living standards than preceding generations. However, even prior to the COVID-19 recession, a report by Grattan Institute found that this may no longer be true for millennials. The COVID-19 recession has made this more likely to be a reality. Although older generations have also endured severe economic downturns, their economic outcomes have since been prosperous, with most of the wealth generated being accumulated by older generations. Consequently, from an economic perspective, it is not unreasonable to claim that millennials are the unluckiest generation. Society should take action to ensure that this title does not fall to each subsequent generation.

Social Progress

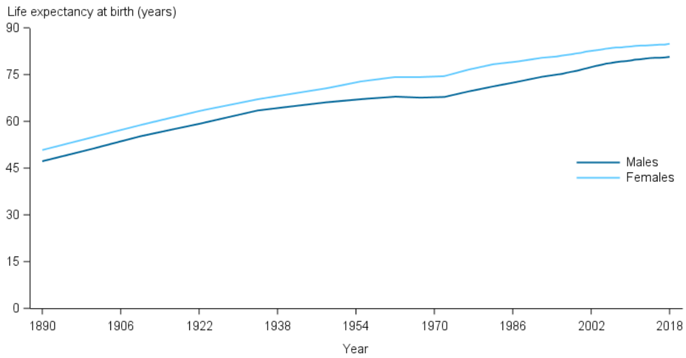
While an individual’s economic outcomes play a significant role in their overall wellbeing, there are many other aspects of their wellbeing that must be considered. Part of an individual's wellbeing includes the state of their society in which they live in, as well as their own health.

Society has progressed significantly over the past few decades, with the general views of society becoming more progressive and accepting. Consider the increasing acceptance of the LGBTIQ community, as well as the increasing diversity (and acceptance of diversity) of Australian society. Disturbingly few elderly Australians identify as LGBTIQ due to the stigma and discrimination they likely experienced when they were younger. From a social perspective, each subsequent generation has benefited from a more diverse, progressive society.

Health

<u>Physical Health</u>

There have been significant medical advancements that have made us healthier and live longer than ever before. The life expectancy of Australians has increased substantially over time. Millennials who were born later, on average, can expect to live several years longer than those in the older generations.



This extends to other chronic conditions, such as coronary heart disease and stroke death which have decreased by over 70%.

<u>Mental Health</u>

While there is a physical element to an individual's health, something arguably more important is an individual's mental health. Unfortunately, mental health issues are a widespread problem within society, with nearly half of Australians experiencing a mental disorder over their lifetime. However, younger people are particularly vulnerable to mental health issues. While this applies to all generations, evidence shows that mental health is worsening, particularly for the current youth of

Gen Z. The Deloitte Global Millennial Survey 2020 found that 48% of Gen Z and 44% of millennial respondents were stressed all or most of the time.

Conclusion

Millennials have lived through two of the most severe economic downturns which has had significant implications for their economic welfare.

"48% of Gen Z and 44% of millennial respondents were stressed all or most of the time"

Through the impacts of scarring, they have experienced stagnant wages and larger difficulties in building a prosperous career which the older generations did not face to the same extent. While society and physical health has improved for millennials, this does not outweigh the declines in mental health which is crucial to an individual's overall wellbeing. Unfortunately, it appears that Gen Z may face even tougher economic outcomes and poorer mental health compared to millennials.

Generational Comparison in Teen Spending

Sohan Pujar

Sohan Pujar is a 3rd year economics and computer science student at Monash University

Across the generations, there is an observable shift within the youth demographic in relation to spending amounts and habits. After uncovering the vulnerabilities during the youth demographic's developmental stages, marketers have exploited these characteristics to drive consumerism. [4] This has led to a tremendous increase in the amounts of expenditure made by the current teenage and young adult population compared to past generations' teenage years. An additional driving factor of consumerism is the emergence of technology, more specifically fintech. The current youth population have harnessed its capabilities to their own advantage due to its reduced entry barriers, which previous young demographics were not able to access.

What's so special about the youth?

The youth are very dynamic in nature. The differentiating factor between them and other age groups is their constant search for personal identity. [9] This factor has been recently realised and exploited by executives of large corporations through marketing. Child psychologist, Dr Allen Kanner explains that "marketing executives are insinuating their brands into the fabric of children's lives. And in this way, teenagers " [4] are naturally insecure and searching for a personal identity. They've been taught that material possessions are what matter" for shaping their individual identity. [4] Thus, when teenage spending is compared across time, we notice a steep and dramatic increase in the recent era.

An interview published by Inkspire highlights this difference of expenditure. The case study involved interviewing a current teenager and a former teenager in the 1980s (now adult) about their spending habits. [8] There were many differences showcased in the interview ranging from the amount to the actual product itself. The results were that the older generations would spend $20 to $30 a month on bowling, chocolates, and bus tickets. In comparison, the teenagers today estimate to be spending $150 to $200 a month on clothes, shoes and presents. [8] Even after controlling for inflation as a variable, there is an extreme increase in spending when comparing the two generations. [10]

Although this case study may not be representative of the whole teenage populations in the 1980s and early 2000s, it still logically holds true. This large increase in teenagers' spending revolve around discretionary items which are the fruits of a concept called 'consumerism'.

Consumerism is the idea that increasing the consumption of goods and services purchased in the market is always a desirable goal and a person's wellbeing and happiness depends on obtaining consumer goods and material possessions. [6] This concept reflects the beliefs of the current teenage population who hold significant value in obtaining a branding for their identity as highlighted by the case study.[8]

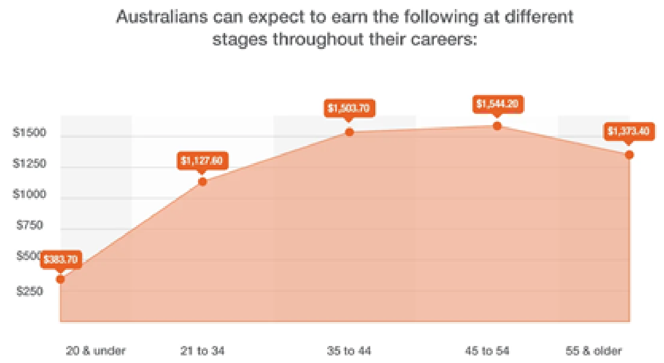
For this reason, the current youth demographic dominates the global market share. In vanilla statistics, more than 50% of the world's population are youth aged under 30.

"Even after controlling for inflation as a variable, there is an extreme increase in spending when comparing the two generations"

According to McKinsey, the Gen-Z demographic currently accounts for 40% of global consumers and have an estimated total spending power of $150 billion in the US alone. [1] The market-share held by the youth is a consequence of the behaviour change in adopting consumerism.

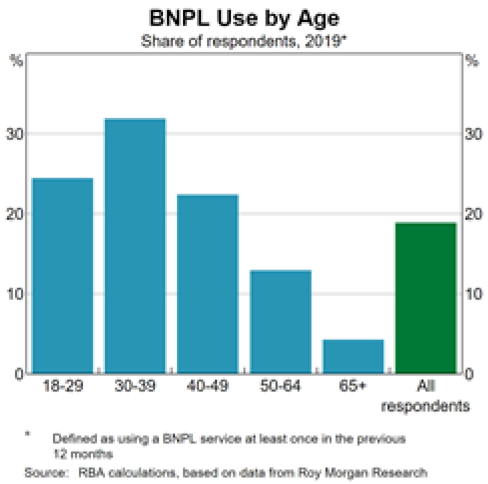
Apart from targeted marketing, what else has driven consumerism in the youth compared to previous generations?

The relatively recent advent of technology has caused major global shifts. Technology has extended its impact on various aspects of lifestyle. An example of technology's reach is the financial sector. The emergence of fintech is a remarkable story, reimagining the ways businesses operate. A recent example is the increased popularity of the Buy-now Pay-later (BNPL) sector. Brands such as Afterpay, Zip Co and Quadpay have become household names.



The BNPL model varies slightly across each company's offerings, however the core business model remains the same. As the name suggests, the BNPL model encourages consumers to own the product or service at the current state of time and pay affordable, interest-free instalments at a future date. This completely new sector has driven consumerism to all new heights, especially within the younger demographics. [7] It allows for the under 34 age group, the opportunity to make purchases despite having little income at the current time of purchase (figure 1). [2] Through the BNPL sector, having immediate cash on hand is no longer a prevalent barrier for the youth to make a purchase. This has led to the youth spending lavishly on products and services which attribute to forming an aspect of their identity. [3] These few reasons do not completely explain the rise in expenditure made by younger demographics but are major influencing variables.

"This has led to the youth spending lavishly on products and services which attribute to forming an aspect of their identity"



The graph highlights approximately 55% of consumers who use BNPL are aged between 18 to 39 (figure 2). [5] It clearly portrays the younger demographic's love affair for utilising BNPL options as an alternative payment method

What would happen if the BNPL system did not exist?

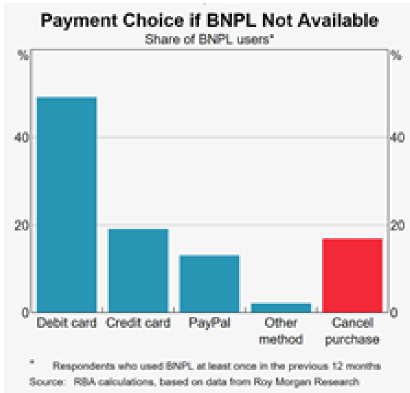


Figure 3: The distribution of answers if BNPL was not available

If the BNPL option was not available, then approximately 50% of consumers would place the purchase on their debit card. However, more interestingly, is the figure that nearly 20% of buyers would forfeit the purchase. [5][3] In simple terms, this is lost revenue for merchants. The BNPL scheme has enabled people who may not be able to make the purchase at the current time, to complete the transaction and defer their obligations to a later date. [7] These statistics show evidence for consumerism within the young demographic.

The dual effect of targeted marketing and the emergence of the BNPL sector has driven consumerism to new heights which is reflected in the current youth demographic's spending habits and market-share held. These current levels of youth expenditure have noticeably grown tenfold and are at higher levels when compared to previous generations' youth populations. With fintech reducing common historic barriers for market entry, the youth's spending power is expected to continually increase.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Everything that is old is new again: Mercantilism from 1500's to 21st century

Stephen Griffin

Stephen is a 4th year Economics student at Monash University

Join Stephen as he unpacks why mercantilism still lingers on some four hundred years after its initial inception. And why some policymakers turn to it in times of recession or downward economic pressure.

What is Mercantilism:

Mercantilism was a period of economic thought dating between the 1500–the 1800s whereby heavy government regulation restricted trade insofar as to eliminate trade deficits. It promoted strong nationalism and a build-up of military force. This form of economic doctrine built one economy at the expense of another.

The prevailing thought at the time was that to have a strong economy meant to have a vast reserve of gold. During this time, nations relied on the Gold Standard, which underpinned all trade between nations. The more gold that a country had, the stronger its economy. Therefore, a nation wanted to export more than it imported; in many cases, it wanted to exclusively export as this would increase its reserve of gold. During the 17th century, the Dutch and Spanish dominated European imports. To reduce imports into Brittan, the

Rump parliament enacted the British Navigation Acts, which sought to enforce tariffs on any vessel importing goods into England. The act worked and weakened the stronghold that its neighbours had on trade by requiring goods to be imported by English ships first before being sold to other parts of Europe.

Mercantilism also fostered the rise of monopolies and quasi-government entities like the East India Trading Co. which through strong government support, were able to exploit local labour and natural resources for the benefit of England. This cycle was self-perpetuating where exploitation fuelled exports, increasing reserves and further military expansion and domination.
Whilst mercantilism is often confused with bullionism – the accumulation of gold at all costs, it can be thought of as an early form of mercantilism; it differs in the nature of economic activity. Mercantilism, in its most basic form, is about absolute control, often from government oversight and intervention. It does, however, have some similarities with John Maynard Keynes, who advocated in his work General Theory for the ample supply of precious metals (Gold) and their use in maintaining control over interest rates. It's of no real surprise why he thought this way as his work was of utmost importance in clawing the United States out of the Great Depression. However, whilst Keynes might have some similarities with mercantilism, his thoughts on government intervention were much more modest than mercantilist doctrine. It was the work of Adam Smith in the Wealth of Nations who vehemently opposed any form of government intervention that signalled the end of mercantilist thinking. Smith believed that well-functioning markets free of any intervention were the most efficient way for sellers and buyers to come together. On the spectrum of economic doctrines, his is as far from mercantilism as you may find; however, even Smith recognised the need for the state in a well-functioning free market (for example enforcing property rights). New thinking in the 1700's (Adam Smith) and the rise of industrialism and the American and French revolutions (1775 – 1783, and 1789 – 1799) which embraced democracy and with-it capitalism; fundamentally put an end to mercantilism and a new doctrine based on free markets developed. However, mercantilism limped on in new and varied forms in certain parts of the world…

Mercantilism and its Resurgence in the 20-21st centuries.

Mercantilism was revived in the 20th century through Nazi Germany in the mid '30s until the end of World War II. Mercantilist principles of national control over key industries such as steel and heavy industries was instrumental in its retooling for war during the interwar years. Once war was declared, it subjugated the conquered lands and funnelled the riches back to Germany. Likewise, the Soviet Union also adopted mercantilist doctrines by subsidising specific industries (technology, weapons) and fostering labour and capital into them. In this way, these two very different ideologies adopted and drew upon mercantilist principles in much the same way that the British and Dutchdid in the 1700s. By supporting key entities (Dutch East Indies/East India Company (England) and supporting them with economic and military force.

China today can be seen adopting certain mercantilist doctrines by the way it manages its currency. By carefully buying and selling foreign currencies, it can maintain the Yuan at a level that allows it to become a strong exporter whilst having a stronger domestic currency. This is an anomaly as the two generally move in opposite directions indicating a negative relationship.

Is it relevant in today's economy?

Most recently, neo-mercantilist doctrine has surfaced amongst strong nationalistic leaders, who seek to adopt protectionist policies that aim to garner support from middle-income workers in crucial manufacturing sectors, such as steel and agriculture. The most notable example has been the Trump administration with its economic war of tit-for-tat tariffs against China – and its allegations of currency manipulation. Some of Trump's allegations may hold water; perhaps from a strategic viewpoint, having greater autonomy over key inputs into manufacturing would not necessarily be a bad thing. How he sought to rectify the issue through tariffs and a very public and costly trade war was not the most efficient way. China may rely on America's vast consumption of goods, but it also holds an immense amount of US debt. Therefore, a rebalancing of trade by eliciting more purchases of US agricultural equipment (amongst other items) won't work to stop alleged currency manipulation by China in the short run. China's massive accumulation of foreign currency – which keeps the Yuan undervalued compared to the US dollar won't change immediately. It achieves this by selling its foreign currency reserves to purchase the renminbi (Yuan) which increases its value relative to the US dollar). Even Barack Obama, in his second term, stated that increasing exports was a key policy objective to help America "win the future". However, viewing trade as a win or lose scenario (zero-sum game) is at odds with what trade is, in its best form, all about which is comparative advantage.

“increasing exports was a key policy objective to help America "win the future"”

Mercantilism was and still is a manipulation of what we know as free markets. Capital does not flow where it is most needed, and industries that would otherwise perish under free-market conditions due to competition become inefficient and overly bureaucratic. In the 21st century, mercantilist doctrine survives in conditions where markets have failed or in countries that have too much control over key industries. It has even appeared in countries that champion free markets and are stewards of capitalism, albeit in times of increased economic pressure.

Why we should care about obesity

ZeXin Yuan

ZeXin Yuan is a fifth-year Law/Commerce student. Currently, he's struggling to land a graduate position. The upside is, he has a year left of uni.

Looking back at the increasing prevalence of obesity, ZeXin explores how behavioural economics might better promote healthy eating than classical economics.

Compared to the previous generations, the prevalence of overweight and obesity has increased from 57% in 1995 to 67% in 2017–18 for Australians aged 18 or over. According to the Australian Institute of Health and Welfare, only 24.7% of males and 38.6% of females are within normal weight.

Increased medical expenses are not the only cost that is associated with obesity. Child obesity is associated with delayed skill acquisition and worse educational outcomes. Adult obesity is associated with lower wages, especially for white females.

It is not that we are not aware of obesity and its cost, but rather to stand up against a 'moist, chewy, doughy and slightly underbaked [cookie] with the perfect amount of big chocolate chunks' just seems impossible.

The purpose of this article is to explore what else we could do aside from classical economic approaches, such as providing nutrition information, which research suggests has achieved no apparent effects.

The economic framework for understanding obesity

Constraint maximisation is at the core of almost any economic concept. In the case of obesity, we are subject to time constraints such as exercising, preparing healthy foods; and money constraints such as paying for relatively more expensive healthy foods.

To maximise an individual's utility, we assume that the optimal allocation of resources will occur when an individual receives an equivalent amount of utility gain for the last piece of resource spent on each type of goods. In other words, the optimum point of allocation will occur when it is not possible to gain more utility by spending resources elsewhere. This is because the marginal utility gains for all goods are equal. When this rule is satisfied, the utility gain of spending resources is maximised.

In the case of obesity, we assume that an individual will allocate such resources to achieve an optimum outcome by taking into account factors such as long-term health, short term enjoyment of foods and so on.

However, this model does not sufficiently explain why people would fail to lose weight even after spending a large amount of time, effort and money.

The behavioural economics/cognitive neuroscience framework for understanding obesity

This model divides our brain functions into two separate systems. One being the 'controlled, effortful rule-based, slow, conscious and rational' system; the other being the 'automatic, uncontrolled, effortless, associative, fast [and] unconscious' system.

Attempts to lose weight rely on the effortful system which consumes willpower. However, people have a finite amount of willpower. Because of that limitation, we are unable to allocate resources such as time and money exactly the way we want.
The automatic system, on the other hand, does not consume willpower to make its decisions. Decisions made by the automatic system are effortless and natural. Therefore, in theory, it is possible to make people lose weight unconsciously and effortlessly if the automatic system is the initiator of weight loss. This can be done by studying the automatic system's responses and by designing a choice architecture that alters our behaviour without changing people's economic incentives such as time or money - in other words, nudging.[10]

"…the optimum point of allocation will occur when it is not possible to gain more utility by spending resources elsewhere."

Do nudges really work?

According to systematic reviews and meta-analysis, 'nudge holds promise as a public health strategy to combat obesity.'

For example, research has shown that minor changes in accessibility decrease food intake. The experiment was carried out in a cafeteria which sold pay-by-weight salads. There were three rows of ingredients to choose from, with two rows near the edge (edge rows) and one row in the middle (middle row). There were ten ingredients in each row. Because the edge rows were nearer to the entries and exits, they were easier to access. However, it required extra effort to reach for the ingredients sold in the middle row. There were also clear plastic shields (Sneezeguard) over the edge rows, which further prevented access to the middle rows

Researchers manipulated the positioning of ingredients and found that placing the ingredients in the middle row instead of the edge rows reduced consumption of ingredients on average by 13%. They also found that serving customers with tongs instead of spoons reduced the consumption of ingredients by 16%.

The mere inconvenience of having to spend some extra effort to reach for ingredients that would otherwise be consumed had the effect of nudging consumers away from those ingredients. The phenomenon might be explained by the fact that we tend to follow the path of minimum expenditure of physical energy.

Policy implications

Such findings can be used for designing choice architectures that promote healthy eating, for example, by making healthier foods easier to access as compared to calorie-dense foods.

This article is of the opinion that by replicating research such as the above and by finding the root causes of our automatic behaviours, we can stop our brains from playing ‘I don’t care, I love it’, which itself is probably a nudge.

“The phenomenon might be explained by the fact that we tend to follow the path of minimum expenditure of physical energy”

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