



Ceteris Paribus



December 2004/January 2005

Economic Society of Australia, Victoria

Economists party 'til punchbowl removed

50+ guests see three life members inducted...and a musical rendition

50 or so economists gathered at the Reserve Bank on Thursday 9 December to celebrate the end of another year,

economist working with lawyers.

The undoubted highlight of the evening was Jim Perkin's unaccompanied

of the words for a future edition.

Congratulations to Neville and Margaret Norman for an excellent punch (requests for recipe to Margaret c/o Neville), made at short notice.

The Victorian Branch of the Society is itself indeed a punchbowl of flavours, based on those attending, with members hailing from across the world, including Africa, Europe, Asia and North America.

Although your correspondent is too polite to ask ages, the crowd spanned 60 years, a point well made as Ern



Inducted: Jim Perkins, Maureen Brunt and Ern Boehm

and to observe the induction of three colleagues as Life Members of the Society.

Ern Boehm, Maureen Brunt and Jim Perkins were inducted by Neville Norman. Each gave kind, gracious speeches of acceptance. Ern Boehm offered his 50-year-plus collection of Economic Journal and other prestigious literature to a good home. And Maureen Brunt received many a knowing nod when discussing the challenges of the



Jim Perkins recites the Quantity Theory of Money

rendition of A Parody on Kenneth Boulding's Quantity Theory of Money. Ceteris Paribus will endeavour to get hold

Bohm spoke, flanked by young, soon-to-be graduates from Melbourne University (see page 4).

KMF

President's Parley



The Society stands to serve its members. Much of the time we have to guess at what

you want. Sometimes we get strong messages from a few correspondents, and we have to judge if these are minority positions or are typical of broader feelings. In the year 2004 our hunch was that you would value the return of the long-lost Annual Forecasting Conference, you would want us to do the ground work to get the Conference of Economists for Melbourne in 2005, fix some administrative glitches, induct some distinguished economists as life members, encourage many more young economists into the Society and forge fuller links with the national body. We did all this and remained solvent. We didn't hold as many mini meetings as before. We have thus sought to rectify that with a fuller, almost monthly program, to be disclosed in early 2005. On what goes into the meetings, when we hold them, and where, are for you to say. Please talk to us, more than before.

More than 50 members and guests joined for a lovely year-end party on December 9. I reiterate what I said there – you are wished a joyous Christmas and festive season and a providential 2005. Good fortune to you all, and your friends and families. Let's make 2005 one of fuller contact and engagement. **NRN**

Economists abroad from home

Two economists muse on life abroad...in Victoria...and Thailand

Newcomer Economics

Linda Wannan-Edgar, Former Corporate High-Flier and now Ageing Hippy, student member, Economic Society

My brother advised: "For goodness sake, don't tell them in Melbourne that you're originally from Sydney, just admit to the Kiwi bit". Bosses, clients and colleagues: "Go and have some fun, and do what you do best – persuading people to your ideas!"

Well, three years later, this is what I can report as a Newcomer Economist to Melbourne:

- Everybody, yes from right-of-Genghis-Khan to left-of-Lenin, complains about "The Banks"; except perhaps, some investors;
- Some, but few, will actually admit that their "Jeem" is an elongation of Jim, just as "Jum" is an abbreviation of same; that is, some will admit that their vowel-sounds are *elongated*, not that others' are *abbreviated*;

- The big growth industry here for a while was "Commissions of Enquiry"
- Re the Sydney-Melbourne thing: yes, Melbourne and Victoria is/are parochial, but so what? I'm one of 'em now! My boys play Aussie-Rules and we worship the BushRangers. But when it comes to the Haddlee-Chappel Cup or the Bledisloe Cup, we admit to being winners either way.
- The bureaucracy is alive well and thriving, with 3 layers (Feds, State and Local) funded by higher income tax rates than NZ. There is a theory (honest! put to me by erstwhile intelligent businessmen) that Australia actually does what was taught in stage one economics: using taxation as a dampener on demand. As in: "If we didn't have such

high taxes, inflation would be rampant; and we have to do something with the taxes, hence the bureaucracy".

- Despite the incredible *variety* of people in the city, Melbourne is a city of ghettos. Having settled in the inner north-east I find that every second woman I meet is a social worker. Or is in a choir. Had I settled in StKilda-Prahran, I would have found my neighbours either stock-broking or in the performing arts. (I'm hoping Bernard Salt, a demographer with one of the Big 5 - or is it 4 now? - can provide lots of entertaining evidence to support me.)

And there's more: the universities, the transport system, the pork-barreling and other fun stuff associated with Federal-State financial relations...

Economic Life Wasn't Meant To Be Easy

Cornelis (Corrie) Reiman is bemused by some attitudes to economics

As a former Monash Lecturer and one-time President of the South Australian Economic Society Chapter, I've found people who consider Economics to be unrelated to business - not that I was looking for such folk. Specifically, I became Dean of Postgraduate Studies a couple of years ago at a new university in Thailand (one set up by the current Thai Prime Minister through personal funds accumulated by way of his telco interests) and developed a business school afresh. I'm well qualified for the role having professional qualifications in accounting, marketing, computing, and management, as well as work experience with with IBM, Arthur Andersen & Co and as a private management consultant.

In the process of gaining Thai Ministry of University Affairs (MUA) approval for the MBA curriculum and programme, and for submission purposes, I also lodged my name as the MBA programme Director until one could be hired at a later date. Remarkably, I was not able to do so as the MUA did not acknowledge my PhD in Economics (entailing econometric analysis of Australian workplace and employee wage data - AWIRS) as suitable. In fact, the MUA review committee would not accept that any Economics doctorate was business-related. Such was the bureaucracy of the MUA. The University Chairman, with a PhD in Economics and a former CEO of a

major Thai bank, shared my polite surprise at the decision.

Anyway, despite the experience, as well as the fact that many (if not most) commerce faculties in Australia have dropped their link with Economics subjects for undergraduate offerings, I'm still firmly of the view that Economics provides a sound grounding for anyone wanting a business-related career. Certainly, my doctorate (and other economics skills and abilities) do not restrict his work as Vice President, Academic Operations, of Universitas21 Global - an international, premium, on-line MBA programme based in Singapore - one supported by sixteen top research universities from around the world.

Have you got an economic story to tell? Sure you do.

Please send your contributions to: kfitzsims@sdastrategic.com.au

Winged predators

Margaret Starrs

On Tuesday 16 November, Dr Colin Gannon gave an excellent presentation on predatory pricing in air service markets. He is currently Senior Economic Advisor – Transport with the ACCC, and has previously worked at the World Bank, in government and in academia. Unfortunately, there was a small attendance but those who did attend greatly appreciated the presentation and following discussion.

The emphasis of the presentation was on how predatory behaviour can be identified and proven to be illegal in terms of trade practices legislation. The economic definition of predation may be quite simple, i.e. charging below

marginal costs, but testing whether it is occurring in economic or legal terms is not a simple task. One significant difficulty may be in distinguishing between what is fierce competition and what is predatory behaviour.

Evidence of predatory pricing requires a combination of three factors. Firstly, the means to engage in the behaviour; some market power as evidenced by barriers to entry, with sunk costs being the prime indicator. Secondly, the motive or intent to drive another participant from the market. And thirdly, a method to achieve that intent; this would normally include loss making conduct, i.e. pricing below marginal

costs, and the ability to recoup the losses at some time in the future.

While marginal costs are generally agreed to be the short run avoidable costs of a service, there is often a protracted debate between economists on measuring these costs. Dr Gannon suggested that opportunity costs may provide a better basis, particularly when assessing losses resulting from the behaviour. It was clear from the presentation and the following discussion that several tests need to be brought to bear on identifying and proving predator behaviour.

Six lifers, a distinguished fellow and Neville



Freshly inducted Jim Perkins, Maureen Brunt and Ern Boehm join Neville Norman, national body distinguished fellow, Peter Dixon (top right) and fellow life members Daina McDonald (bottom left), Max Corden (second left, top row) and Joe Isaac (third left, top row).

Kates joins Council

Dr Steven Kates has joined the Economic Society Victoria Council having returned to Melbourne from the ACT where he has been for the past eight years. Steve has left the Australian Chamber of Commerce and Industry where he had been its Chief Economist since 1989 to work with ACIL Tasman where, amongst other things, he has been asked to set up a Macroeconomics Unit.

While in Canberra, Steve had been both the Treasurer and Secretary of the local branch of the Economics Society and had been part of the organising committee for the very successful Conference of Economists in 2003. He had, in fact, run the Business Symposium as part of the Conference, putting together a line-up that included Mark Latham, Arthur Sinodinos, Ken Henry, Gary Banks, Graeme Samuel, Larry Myer, Paul Ormerod and Ted Evans.

He is now back in Melbourne in time to work on the Conference for 2005. It might finally be noted that Steve retains an academic interest in the History of Economic Thought and has written three books and many articles on Say's Law.

Pumping sewage uphill

An unpromising headline...but where there's muck...
Philip Norman reflects on economic life in the gutter.

The October AGM concluded with an entertaining and insightful address by Professor Peter Dixon who discussed the issue of how economists find out things. He identified three main sources: pure theory, statistical analysis and talking to people on the ground who know something about the issues economists are analysing. After identifying the pros and cons of economists utilising these sources of knowledge he concluded that, when analysing issues, ideally, they should use a combination of all three of them.

Peter illustrated these points with funny anecdotes from our 1988 study into the optimal price of water and sewage for Melbourne, Sydney and Perth for the next 50 years (Melbourne Institute of the University of Melbourne won a competitive contract), and invited me, as his then research fellow, to respond (Only my stomach felt funny as I smiled as a grateful guest when served a massive beef steak at the Werribee Hotel a few minutes after smelling the relatives grazing on 'the product').

- Economic theory from Professor Ng suggested that water prices should:
 - rise just before a new dam was required, to defer the needed augmentation (helping earn the needed finance); and
 - fall immediately on completion to maintenance costs, to encourage usage.
- Peter supplied the statistical analysis by constructing a giant linear program to optimise utility over 50

years subject to constraints.

- As we talked with the industry we came to understand that the constraint which needed the most capital was not new dams to harvest fresh water, but trunk sewers and pumping stations to dispose it. The **first unforeseen contribution** was to recognise the need to price sewage. We came up with the quarterly metering technique (still used today) to estimate; 'inside water' (toilets, showers, laundry, kitchen) from winter usage, assuming; and summer usage was for outside the house.

Peter provided numeric estimates for pricing of water and sewage which were largely adopted by the then Melbourne Water. Moving towards more reliance on volumetric pricing away from rate revenue was one tool which helped Melbourne defer its next major dam.

A **second insight** into developer charges was not fully developed. Sewage people in Sydney told of the difficulty in providing access to sewage disposal services to prestige houses around their Harbour. The rock was hard and the geometry was difficult – sometimes local pumps were required. A more general issue was that it was cheaper for new housing estates to be located alongside trunk sewers, which then linked with land-use planning and economic geography. Peter formally built developer charges into his model, and estimated a shadow price, but I think the industry and their governments missed an opportunity to

commission Peter to explore this further.

Another **unexpected contribution** was to estimate and then minimise 'missing water'. I found myself within Melbourne Water calculating the periodic pricing review (which was then dominated by land rates). Adding the volumes recorded on a million water meters less that supplied ex dams gave what was 'missing', which I calculated to be large. Water went missing via aged meters (many meters were 100 years old, and they slowed as they aged); leaking pipes; theft / history (there were stories of unmetered pipes to public gardens); fire-fighting / street flushing; and construction (unmetered) of new buildings. Higher prices for water and sewage gave strong revenue incentives to minimise 'missing water', with the added benefit of deferring new dams.

What Helped? Peter's personal energy and his 'distinguished fellow' economic skills made it look easy, but other helpful ingredients included:

Time to think and listen and flounder – we had an initial year – which would be unusual in a commercial consultancy today;

Access to the industry – the chairman of Melbourne Water (Mr Ray Marginson AM) opened many friendly doors;

An untilled paddock for economists – we reaped early pickings from the gains from trade between our profession and civil engineering.

Today's life member...flanked by tomorrow's?



Owen Lee, Fatih Senir, Jules Malseed-Harris, David Floyd and Matt Barry listen to Ern

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