

TITLE: Miners' figures don't add up

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Despite decades of debate, many economists can't agree with each other about fundamental issues. We can't agree what causes unemployment, we can't agree what fixes it and we can't agree whether we should run deficits when the economy slows down. Careers could be made on the length of some unresolved disputes with colleagues.

Lawyers, on the other hand, don't appeal to their opponents to change their mind, they appeal to judges to resolve disputes. And while the wheels of justice might grind slowly at times, they look like a racing car when compared to the economics profession. So when economic arguments wind up in court, the debate can shift a lot more quickly.

The courts were recently asked to answer a simple economic question: Does the construction of a mine create a large number of indirect or downstream jobs?

The mining industry has been claiming for a decade that it does and some economists, including myself, argue that it doesn't.

But while the public debate was headed nowhere, the case has provided clarity where confusion previously reigned.

While trying to garner planning approval for an extension of its Warkworth coalmine in the Hunter Valley, Rio Tinto's economic consultants estimated the mine would create 44,000 jobs. That's a lot of jobs.

Unfortunately for Rio Tinto the Chief Justice of the NSW Land and Environment Court didn't buy it.

Judge Brian Preston found Rio's claims weren't credible and that the evidence it provided did not support the conclusion that the economic benefits of the mine outweighed the social and environmental costs.

Further, he found that the input-output modelling relied on by the miner was a "limited form of economic analysis" that did not assist in helping the court weigh the economic, social and environmental costs and benefits of the mine.

Input-output modelling has been widely used in Australia to generate estimates of the so called multiplier effect or the number of indirect jobs that are allegedly created.

The mining industry has been a heavy user of this form of modelling, frequently using it to claim that each mining job was responsible for the creation of between three and six jobs elsewhere in the economy.

As Justice Preston found, such claims are rubbish. David Richardson at The Australia Institute has calculated that if every industry paid an economist to work out the number of indirect jobs it created, then the Australian workforce would be more than twice its actual size.

The biggest issue with these claims is that they are based on the assumption that there is a pool of highly skilled ghost workers just sitting around waiting for a new project to go ahead.

In reality, the mining industry has expanded by poaching the best staff from the manufacturing and other industries.

Now that an official judgment has been passed on the dodgy claims of large multiplier effects, the economics profession has been quick to surrender.

This week the Productivity Commission published a paper entitled *Input Output Tables: Uses and Abuses*.

It concludes: "Abuse primarily relates to overstating the economic importance of specific sectoral or regional activities. Claims that jobs 'gained' directly from the cause being promoted will lead to cascading gains in the wider economy often fail to give any consideration to the restrictive nature of the assumptions required for input-output multiplier exercises to be valid." When The Australia Institute has made similar observations the mining industry has referred to us as left-wing and anti-mining. It will be interesting to see if it calls the Productivity Commission similar names.

But the Commission's belated entry into the debate is to be commended. The proof that the jig really is up comes from what the mining industry's own hand-picked economic consultants are now conceding.

In the first related court case since Justice Preston dismissed the usefulness of input output modelling, Dr Jerome Fahrer, who was commissioned by the proponent of the Ashton coalmine in the Hunter Valley, opened his testimony by saying that the economic benefits of the mine were "not about jobs".

Not only did the Ashton mine's own expert agree that if the mine went ahead it would cannibalise jobs from other industries, he presented data to the court suggesting that as the mine would rely on people driving long distances to work, it would destroy more jobs in the local economy than it would create.

For more than a decade court cases, public servants and, through the media, the public have been fed a steady diet of dodgy multiplier analyses that purport to show that what is good for the

proponent of an industry, is good for the economy as a whole. Just plug indirect jobs into a search engine and you will see what I mean.

Of course, the fact that input-output modelling is often rubbish doesn't mean that some projects don't have the potential to create social or economic benefits.

But what the Warkworth judgment and this week's paper from the Productivity Commission do is highlight that policy makers and the public need to be sceptical, if not suspicious, of claims made by private companies suggesting their projects will deliver public benefits.

It should come as no surprise that the reason the mining industry wants to build mines is to make more profit. In doing so it may accidentally create a few jobs. But as Rio Tinto's research into robotically driven trucks shows, if it can find a way to employ fewer people, it will always take it.

But you can't blame the mining industry for doing what it is legally obliged to do.

On the contrary, we should blame politicians, policy makers and an uncritical media environment for their willingness to accept exaggerated, and at times ridiculous, claims. Modelling commissioned by Santos actually claimed that if its gas project, which would employ 30 people, were to go ahead, an additional 570 jobs would be created in the public sector.

The job of deciding what is, and isn't, in the community interest is extremely difficult. It is especially the case when a project will inevitably cause local noise and air pollution, local traffic congestion, local environmental harm and increased profits for people who don't live in the community.

It is easy to dismiss concerns about the downside of progress as NIMBYism, but it is rare to find residents of a leafy suburb who warmly welcome a new road or a big block of flats in their backyard.

Similarly, while residents of the Hunter Valley are told to get with the program if they express concerns about coal dust, residents opposed to wind turbines have attracted far more political support.

It will never be clear how society should make decisions that have clear winners and losers, but it is entirely clear that the dodgy use of multiplier analysis has been used to suggest that the public benefits of some projects have been massively exaggerated.

Public servants and politicians tasked with helping to make such decisions should read the Productivity Commission's latest report carefully.

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