

Emissions Trading 101

The policy question of the century is ‘will emissions trading prevent climate change?’ but the policy question of the year is ‘how does emission trading work’. Richard Denniss provides some answers.

The objective of an emissions trading scheme (ETS) is to reduce pollution. In the case of the Rudd Government’s Carbon Pollution Reduction Scheme (CPRS), the objective is to reduce greenhouse gas emissions. But the question on most people’s lips is ‘how does it actually work?’

Before explaining how the CPRS will work, it is important to explain why we need it. The main reason is because of ‘market failure’, a term which refers to a situation where if decisions are left to the market, the end result will be inefficient and undesirable. The market failure that causes climate change flows from the fact that people who emit greenhouse gasses do not have to pay for the ‘waste disposal’ costs associated with their actions. That is, while companies have to pay to have their garbage taken away by trucks, they don’t have to pay to have their CO₂ taken away by the wind.

Providing something for free is the same as granting a 100 per cent subsidy, and the consequences are the same: producers produce too much and consumers don’t pay enough. The policy objective is to reduce the amount of pollution and this can be done by regulation to prevent, or encourage, particular forms of behaviour. This regulation can take the form of a carbon tax, or an ETS. The Rudd Government has decided to focus on the latter option, but it

is important to note that - despite protestations about the emerging role of ‘evidence based policy’ - there has been no evidence released to show that an ETS would be better than a carbon tax.

How does an ETS work?

The first step is to decide how much pollution you want to have. An ‘evidence based’ approach would rely heavily on scientists to determine the level of pollution reduction required to avoid a given amount of climate change. In Australia, however, we will be relying on a combination of politicians and economists to ensure that we get the right ‘balance’ of climate change and economic growth.

The next step is to convert the desired level of pollution into a fixed number of permits. In the CPRS each permit will represent the right to emit one tonne of CO₂.

The third step is to decide who will be liable to ‘remit’ permits for the pollution they cause. One option would be to make all business and consumers responsible for their individual levels of greenhouse gas emissions. However, in order to reduce the administrative burden, the compliance costs, and the difficulties of ensuring compliance across 20 million Australians, the CPRS will only apply to around 1,000 large ‘upstream’ polluters.

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In order to understand the difference between permits for ‘upstream’ versus ‘downstream’ polluters, consider the example of petrol consumption. When an individual burns a litre of petrol it releases a known amount of CO₂ into the atmosphere. In principal, the individual could be required to buy emission permits.

Given the number of times individuals buy petrol, however, a much simpler approach would be to impose the obligations further ‘upstream’ and require petrol stations to purchase permits to cover the emissions associated with every tanker full of petrol that they buy.

But given the large number of petrol stations, and the number of times each year that they buy tankers full of petrol, an even simpler approach is to place an obligation even further ‘upstream’, on the actual petrol refineries. This is the approach proposed for determining who the CPRS should apply to.

It is important to highlight, however, that just whilst the obligation to purchase pollution permits is placed on the ‘upstream’ producers, the expectation is that these costs will be passed ‘downstream’, onto consumers. The whole point of the CPRS is to make products that produce a lot of pollution more expensive to make, and therefore to buy, than ones that don’t. While the legal obligation to buy permits will be placed on petrol refineries, electricity generators, and other big polluters, the ultimate impact, or ‘incidence’, will be borne by consumers.

How does an ETS affect behaviour?

If we want to cut emissions by 30 per cent by 2020 then we need to develop a ‘trajectory’ for emission reductions between now and then. That ‘trajectory’ will tell us how many permits can be issued each year, and the government will have to decide how to allocate these scarce, and valuable, permits. While the economically efficient solution is to auction the

permits to polluters, the politically expedient solution is to give some, or all, of them away.

When permits are auctioned, the polluters become a substantial source of income for the government, with estimated revenue from the CPRS likely to be in excess of \$10 billion per year. Therefore, the more permits that are given away rather than sold, the less revenue the Commonwealth will collect.

When producers are forced to buy permits to pollute, their costs of production will increase. Economic theory tells us that when the costs of particular ‘inputs’ rise, firms will try to ‘substitute’ away from them. By increasing the cost of fossil fuel, an emissions trading scheme should reduce demand for such fuel, and, in turn, lower the level of pollution.

However, while in theory it is clear that firms should respond to higher fossil fuel prices by reducing their demand, in practice not all firms respond this way. Some firms may find it very difficult or impossible to use less energy, and some firms might just decide that in the scheme of things the higher energy prices are an inconvenience, but not worth spending too much time or money shifting to alternatives.

The responsiveness of that demand for energy in response to a change in price is known as the ‘elasticity of demand’. For emissions trading to work it is assumed that this ‘elasticity’ is relatively high, that is, a change in price will bring about a substantial change in behaviour. However, it is not until we introduce emissions trading that we will know what the real picture is.

The next step in how emissions trading works depends on consumer responses. After polluters have done their best to reduce their energy use they will pass on any remaining increases in costs to consumers. While most people understand that this means our electricity bills will rise, it is important to understand that in fact the prices of nearly all goods

and services will rise, to some extent, because energy is used in the production of virtually everything.

Just as the effectiveness of emissions trading will depend in part on the ‘elasticity’ of polluters’ demand for energy, so too will the scheme’s success will depend on consumers’ willingness to change their behaviour in response to higher prices.

If the cost of energy rises say 16 per cent then the cost of something that is highly energy intensive, like an airline ticket, will also rise substantially. For example, if jet fuel accounted for 50 per cent of the cost of an airline ticket, then you would expect ticket prices to rise by 8 per cent. But if an 8 per cent increase in ticket prices doesn’t discourage many consumers from flying, then there will not be any significant reduction in airline travel.

Will an ETS work?

The good news is that if the government chooses a meaningful target, and sticks to it, then emissions trading will deliver a significant reduction in greenhouse gas emissions. The bad news is that if companies and individuals are not very responsive to changes in energy prices then the price changes will need to be very large. Just as if a lot of people want to live on the waterfront in Sydney the price of such houses will be very high, so too if everyone wants to continue polluting the price of polluting will need to be very high.

Markets use prices to ration scarce commodities. For emissions trading to work it is **essential** that the government sets an ambitious emissions target. For emissions trading to work well, firms and consumers need to be willing to change their polluting ways. If they are not willing, then the price mechanism will force people to change through very high prices.

Australians overwhelmed by financial choices

A recent Institute Discussion Paper explains why many people find financial decision-making so bewildering. Josh Fear discusses the results.

According to orthodox economics, people always act in their own best interests, having weighed up the costs and benefits of the options available. Whatever choices individuals make are therefore ‘rational’ by definition.

In the area of personal finances, however, there is a large body of evidence showing that poor financial literacy prevents many people from making sensible and informed decisions. As a result, they behave in ways that are not ‘rational’ in the economic sense.

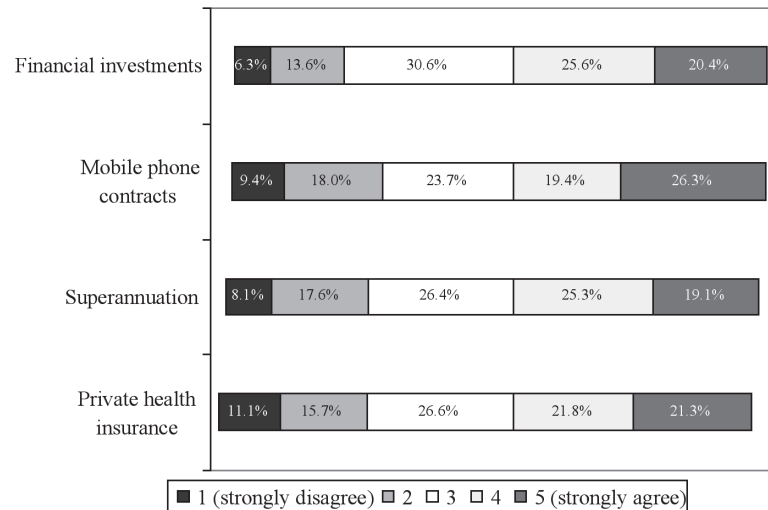
A recent study by the Australia Institute, *Choice Overload: Australians Coping with Financial Decisions*, shows just how common ‘irrational’ approaches to financial decision-making are. For example, one in two survey respondents reported not spending the right amount of time making financial decisions.

Procrastination in financial behaviour is also very common. One in three survey respondents agreed that they often put off financial decisions until later.

Research participants reported a range of ‘irrational’ approaches to their personal finances, including not planning for the future, relying too much on advertising for information, making ‘stab in the dark’ decisions, and not seeking out the right information.

One of the reasons behind such behaviour is that financial decisions nowadays are just so complicated. Around half of survey respondents agreed that financial investments and superannuation are ‘too complicated to understand properly’. Similar results were obtained in relation to

Do you agree that these are too complicated to understand properly?



private health insurance and even mobile phone contracts.

Extensive choice is usually regarded as a positive thing for consumers, and it often is. Yet there are circumstances where more choice is actually detrimental to consumer wellbeing. In the realm of personal finances, people are often presented with choices that they would prefer not to make, or prefer someone to make on their behalf.

Our research findings back this up. Forty-two per cent of respondents agreed that ‘when I need to make a financial decision, I often find there is too much choice’. Only 18 per cent disagreed.

Although many people are positive about the notion of choice *per se*, some remain skeptical about extensive choice in their personal finances. Older people and those on lower incomes, in particular, question the benefits of deregulation and market liberalisation in the financial sector.

As one focus group participant explained: ‘Even our credit union had seven or eight different types of home loan. And I’m thinking, “I just want to buy the bloody house.”’

By contrast, young people generally regarded greater choice and competition as inherently good.

Over recent decades, many Australians have taken on additional financial risks – the result of a more ‘flexible’ labour market, a user-pays health system and increasing self-reliance in retirement provision. It is now commonplace for people to rely on the ups and downs of the market for their future livelihoods. Yet not everyone is well equipped to make the complex decisions that are inherent in these developments.

Despite being a nation of shareholders, survey results indicate that as many as one-third of Australians who own shares did not actually buy them, instead receiving shares as

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a result of a corporate restructure, through their employer, or as a gift – that is, not by choice.

The standard policy response to the shortfall in financial literacy, both in Australia and overseas, has been to address the ‘information asymmetry’ problem by providing more financial information and education.

Such an approach places the onus of responsibility for dealing with a changing financial environment squarely on consumers, and neglects the fundamental responsibility that governments and financial institutions have to present people with choices that they understand and value.

If they want to do this better, they should design policies that allow consumers to *choose not to choose*. This principle applies both in the financial sector and in other areas of activity where greater choice can have detrimental consequences.

Furthermore, financial providers should advertise and promote their products in ways that contribute to, rather than undermine, broader public understanding of financial concepts and imperatives.

A straightforward way to improve financial literacy is to concentrate on improving basic literacy and numeracy. Increased, targeted and sustained investment in public

education is likely to result in improved financial understanding and better financial decisions, particularly for the present generation of young people.

Consumers are now expected to have the self-motivation and capacity to improve their financial knowledge. However, it is the responsibility of governments and businesses to ensure that their information matches people’s capacity to understand it. In certain respects, government and business have not been fulfilling their end of the bargain.

Agreeing to disagree: a national compact for NGOs?

Research Fellow Gemma Edgar summarises the Institute’s latest Discussion Paper.

Non-government organisations contribute to the Australian community in a myriad of ways, creating a rich, supportive and inclusive community. They help produce an active and vibrant democracy and they provide representation to marginalised members of the community. NGOs can also inform public debate, rendering it more substantive and less likely to be captured by business or more powerful members of the community.

During the years of the Howard Government, however, the contributions of NGOs were not always valued. Indeed, some commentators suggest that not only did the Howard Government reject NGO input, it actually employed mechanisms to silence dissenting, critical voices.

With the election of the Rudd Government, an opportunity exists to renew the relationship between the Government and the NGO sector. Deputy Prime Minister, Julia Gillard has said, ‘we want to make sure the

not-for-profit sector, the advocacy sector, can do what it does and have a say within the public domain’.

The Rudd Government is already putting these promises into effect, raising hopes that its statements are more than just political rhetoric. For example, it has announced the removal of the controversial ‘gag clauses’ that were frequently included in government contracts with NGOs. This has helped produce some genuine enthusiasm amongst NGOs, who are hopeful they will develop a more positive relationship with the Rudd Government.

More controversially, the Rudd Government is now proposing a national compact be developed between the government and NGO sectors. A compact is a set of non-binding guidelines that frame the relationship between government and NGOs. It usually includes a statement acknowledging the independence and importance of NGOs, along with a government com-

mitment to consult with NGOs, and to ensure that funding is both adequate and long-term. In return, NGOs agree to be accountable, transparent and adopt good governance principles. Such agreements have been developed in a number of countries, including the United Kingdom and Canada. Australian state and territory governments have also developed similar agreements. For example, NSW prepared the *Working Together for NSW* agreement in June 2006 and the ACT developed the *Social Compact: A Partnership between the Community Sector and the ACT Government* in 2004.

Compacts are usually developed with the best of intentions. Ideally, they can offer a number of advantages to NGOs. For example, they may help improve funding arrangements between governments and NGOs, ensuring that NGOs receive longer-term, more reliable funding. They may also help create mutual respect between governments and NGOs,

and ensure that NGO input is a recognised part of policy development.

Unfortunately, compacts are not usually effective and do not provide long-term solutions to problems that can arise between government and NGOs. This is so for a number of reasons.

First, compacts are not sustainable. They are neither permanent nor binding agreements, and as such they do not offer long-term support for advocacy NGOs. This can create problems when governments change. In the case of NSW, the Carr Labor Government's *Working Together for NSW* compact was abandoned by Iemma Labor Government. If organisations base their tenability on a compact, its subsequent removal (together with the government support that created it) may leave them vulnerable.

Second, compacts are not always successful. For a compact to be effective, all stakeholders need to be across the details of the document. This rarely happens, because ensuring that relevant stakeholders understand what a compact entails requires a large amount of money and resources, which is not always forthcoming.

Finally, working closely with government is not necessarily the most effective way to influence policy. Many argue that working closely with government is a form of co-option, in which the more activist elements of NGOs are tempered by being brought 'inside the tent'. Far from encouraging dissent, compacts can provide convenient and neat channels for it, giving the impression that government is listening, rather than actually challenging the status quo.

On balance, while compacts may offer certain benefits, they cannot provide long-term solutions to the relationship predicament between government and NGOs. Both the Australian Government and NGOs should instead channel their efforts into promoting the political and cultural legitimacy of the civil sector, rather than relying on a compact to patch over the difficulties inherent in their relationship. A shift in cultural attitudes, in which the worth of NGO advocacy is recognised, is the most effective defence against government attempts to undermine and constrain the sector. NGOs should, therefore, direct their energy towards promoting this message rather than towards an often ineffective, and usually short-term, agreement.

Is that it?

Richard Denniss muses over the insignificance of Garnaut's latest suggested cuts.

The Rudd Government's climate change adviser, Professor Ross Garnaut, is advocating Australia adopt very conservative emission targets of around 5 -10 per cent. This is based on his economic modelling and his concerns that the rest of the world will not take the kind of actions

being discussed in Australia. Leaving aside the fact that Australia has followed, rather than led, the world in attempts to tackle climate change, the economic modelling reported by Professor Garnaut suggests that the cost of tackling climate change with a 5 – 10 per cent emissions reduction

would cause a trivially small 0.1 per cent decline in the *rate of growth* of GDP.

To put the estimated economic 'cost' of reducing greenhouse gas emissions into context, 0.1 per cent of

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Budget forecasts of GDP growth compared to actual GDP growth

	Forecasted Growth											
	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
96/97 budget	3.5	3.5	3.5	3.5								
97/98 budget		3.75	3.5	3.5	3.5							
98/99 budget			3	3.5	3.5	3.5						
99/00 budget				3	3.5	3.5	3.5					
00/01 budget					3.75	3.5	3.5	3.5				
01/02 budget						3.25	3.5	3.5	3.5			
02/03 budget							3.75	3.5	3.5	3.5		
03/04 budget								3.25	3.5	3.5	3.5	
04/05 budget									3.5	3.5	3.5	3.5
05/06 budget										3	3.5	3.5
06/07 budget											3.25	3.5
07/08 budget												3.75
Actual result	3.9	4.5	5.2	4.0	1.9	3.8	3.2	4.0	2.8	3.0	3.3	3.7
Absolute forecast error	0.4	0.9	1.9	0.6	1.7	0.4	0.4	0.6	0.7	0.4	0.1	0.1

Hidden unemployment

Is the unemployment rate really that good? There are more than a million people who would like to work but are not included in the official unemployment figures, David Richardson explains.

Steady economic growth over most of the last decade and a half has reduced unemployment. However, hidden unemployment figures warn that there is still much to be done. Our perceptions of the problems, and the appropriate policy responses, are distorted if we rely on the official unemployment figures alone.

On the latest ABS figures there were 518,300 workers who said they worked less hours than they would have liked.

The unemployment rate is a fundamental indicator of the impact of the state of the economy on the wellbeing of individuals. However recently there has been increasing emphasis on inflation and a fairly complacent attitude to unemployment. For example, in the 2006 Budget Speech, former Treasurer, Peter Costello said:

The unemployment rate is expected to remain around its current level — a 30 year low. ... Over 1.7 million jobs have been created in Australia since 1996 and the proportion of the Australian population in employment is around record levels.

That was when unemployment was still around 4.8 per cent. In July 2008 the unemployment rate was down to 4.3 per cent according to the official measure produced by the Australian Bureau of Statistics. The following graph shows how the 'trend rate' of unemployment has fallen in recent years.

Unfortunately, at present the official forecast is for unemployment to increase again, to 4.75 per cent by June 2009. That projection has

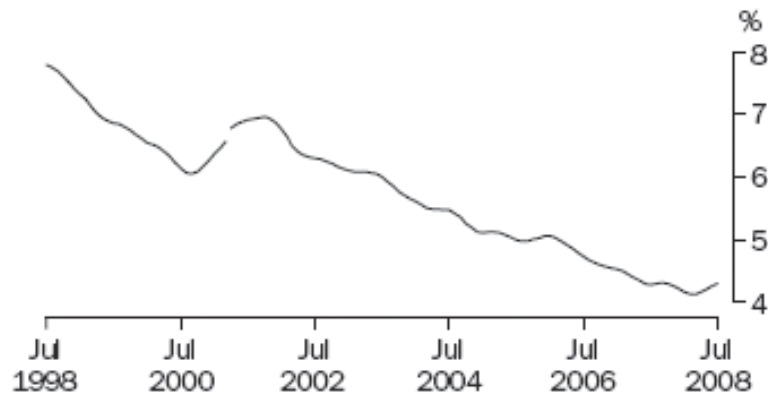


Figure: Trend Unemployment Rate
Reproduced from ABS

not mobilised much concern, and certainly not as much concern as the possibility of higher inflation.

While we all focus on the official measure of unemployment, we must remember that those measured in the 4.3 per cent unemployed (481,100 people), are not the only ones having difficulties obtaining employment in the present environment. The ABS definition of unemployment is very restrictive. The main problem is that only people who are actively seeking work meet the definition of unemployment. Otherwise they are classified as being outside the workforce.

In 2008 there are around 5.5 million people in Australia who are 15 years old or over and classified as being outside the workforce.

Fortunately the ABS clarifies this once a year by surveying those 'outside the workforce'. The results are very interesting. In 2008 there are around 5.5 million people in Australia who are 15 years old or over and classified as being outside the workforce. Of those some 845,000 people said they wanted to work. These people were not included in

the unemployment figures because they had not been actively looking for work in the previous four weeks. Presumably they either knew there was no work in their area, or they had simply given up. But if those people were included in the labour force figures then unemployment would be at 11.4 per cent, an additional 7.1 per cent of the workforce.

In addition to those outside the labour market, there are the 'underemployed' — people who are working part-time but would like to work longer hours. On the latest ABS figures there were 518,300 workers who said they worked less hours than they would have liked. Some were willing to take a new job with longer hours and others were being stood down, put on short time or faced a shortage of work. These people represented an additional 4.7 per cent of the workforce.

All up a total of 16.1 per cent of the workforce are officially unemployed, unofficially unemployed (in that they do not have a job and would like one) or underemployed. That contrasts dramatically with the impression given by a headline unemployment rate of 4.3 per cent.

Institute event with Tanya Plibersek a great success

On 25 August the Institute hosted a conversation between Professor Barbara Pocock and Minister for Women and Housing, Tanya Plibersek.



One of the priorities for the Institute in the near future is to hold public events that will bring people together with a range of speakers, aimed at educating, informing and inspiring. To this end, on Monday August 25 The Australia Institute hosted an intimate conversation between Australia Institute Board Member Professor Barbara Pocock and the Commonwealth Minister for Women and Housing, Tanya Plibersek. The general topic was *Identity and Integrity in Public Life*.

But stories of baby-sitting pleas and nappy-changes in Parliament House offices were not all that was to be gleaned from Barbara and Tanya's conversation.

The conversation, the first of its type for the Institute, was held at Tilley's café before an audience of more than 100 people. The topics of conversation ranged from when Australian women might have access to paid

maternity leave to why Tanya is so popular in Slovenia.

Tanya regaled the audience with candid, humorous and very real anecdotes of her efforts to juggle roles of mother, wife, and Member of Parliament. Barbara sought to examine how Tanya managed the practicalities of such a busy life with an enormous workload, and the policy and political challenges of trying to provide greater assistance to all families in similar circumstances. Tanya drew a picture of the difficulties of working full-time and raising a family whilst trying to keep her perspective and priorities in order. In terms of finding that a balance, she stressed the value of having a support network and a positive attitude.

Tanya regaled the audience with candid, humorous and very real anecdotes of her efforts to juggle roles of mother, wife, and Member of Parliament.

But stories of baby-sitting pleas and nappy-changes in Parliament House offices were not all that was to be gleaned from Barbara and Tanya's conversation. Delving deeper into the issues surrounding women, families and the workplace, the dialogue turned to issues of public policy and cultural attitudes. Tanya was upfront about the personal and political obstacles to achieving workplace and cultural change in a society which still presents many challenges for women and families. Meaningful discussion also took place over the idea that not all women have the same priorities, and that perhaps a little less pigeon-holing and a little more empathy would go a long way.

Ultimately, the Minister delivered an optimistic message about the prospects for progressive policies and meaningful change.

Tanya explained that she found vindication for her heavy life and workload in the fact that she was working hard to be able to make a difference to Australian society on the whole. Being in a position to address things such as homelessness, violence against women and entrenched inequality evidently brings immense personal rewards. The frustrating thing, as Tanya explained, is that things cannot be addressed as quickly as one would sometimes like them to be. Ultimately, the Minister delivered an optimistic message about the prospects for progressive policies and meaningful change.

On the whole, the audience clearly delighted in Tanya's presence and candor. We at The Australia Institute were pleased to see that the event, discussing as it did some very important issues, was such a success. We will be holding more events in some other cities around Australia in the upcoming months, so stay tuned.

For now, whilst there may be no simple answers to issues surrounding women or housing, it was obvious that the Minister responsible is as well equipped to consider the intellectual and personal challenges as you could hope for. Tanya demonstrated a level of enthusiasm, intelligence, approachability and dedication that was truly uplifting. Only time will tell how easily persuaded her colleagues, and the Senate, will be.

The Clarke Inquiry: some insights and emerging issues

Susan Harris Rimmer has written a Discussion Paper for The Australia Institute which touches on the problems of character testing as it related to Dr. Haneef. Here she provides some context on the current Clarke Inquiry.

The arrest and subsequent charging of Dr Mohamed Haneef for terror related offences attracted a great deal of criticism, aimed at the national security agencies, and particularly the Australian Federal Police (AFP). In response, Rudd Government announced the Clarke Inquiry into what has come to be known as 'The Haneef Affair'. The inquiry, headed by former NSW Supreme Court judge, the Hon. John Clarke QC, is to report by 30 September 2008.

The Clarke Inquiry will look into the arrest, detention, charging, prosecution and release of Dr Haneef, the cancellation of his Australian visa and the issuing of a criminal justice stay certificate. However, it will go beyond the case itself to investigate the relevant administrative and operational procedures; the effectiveness of cooperation on the issue between intelligence and law enforcement agencies, and; any deficiencies in relevant laws or procedures.

The powers conferred upon The Clarke Inquiry have drawn a fresh round of criticism. There is no power to compel witnesses and evidence will not be taken under oath. Attorney-General Robert McClelland stated at a press conference that it will be up to Mr Clarke to seek expanded coercive powers for the inquiry if the need arises. Mr McClelland also refused to expand the inquiry's terms of reference to consider the role of British authorities in supplying information to their Australian counterparts. And Mr Clarke has foreshadowed that parts of the report will not be made public. The AFP has thus far resisted pressure to make their submission to the inquiry public, although surprisingly, ASIO did release its submission.

In the light of these deficiencies, it is good news that the Rudd Government announced on 5 August that it will seek to simplify secrecy and confidentiality laws by referring Commonwealth secrecy laws to the Australian Law Reform Commission (ALRC) for inquiry by October 2009. But this will be too late for Dr Haneef.

Miriam Gani is a Senior Lecturer at the ANU College of Law. Her insights into the Clarke Inquiry thus far argue that whatever else is revealed, the Haneef Affair has already reflected poorly on Australia's intelligence and law enforcement agencies.

One of the most memorable images of 2007 was the photograph taken by press photographer Eddie Safarik of Mohamed Haneef being driven away from the Brisbane watchhouse in a police van. Dressed in a regulation jumpsuit, Haneef is huddled at the far end of the gleaming metal interior of the van, bending so low over his knees that his face is entirely hidden. A heavy padlock hangs under a thick bolt in the foreground of the photo.

Indeed, so powerful was this image, that it won Safarik the best news photograph award at the 2007

Walkley awards for journalistic excellence. The episode that the photo documents, however, reflects anything other than excellence in Australia's contribution to the so-called war on terror.

The broad detention powers attaching to the terrorism offences allow for someone like Dr Haneef to be held for days at a time before such charges are even laid

On July 2, 2007, Dr Haneef was arrested following the police establishing a link between a mobile phone SIM card that he had left with relatives in Britain a year earlier and terrorism attacks in London and at Glasgow airport. After being

held for 12 days, Dr Haneef was charged under section 102.7(2) of the Criminal Code Act 1995 with providing support or resources (the SIM card) to a terrorist organisation and being reckless as to whether the organisation was terrorist.

The circumstances of Dr Haneef's arrest and of his subsequent detention, charging, prosecution and the ultimate discontinuance of the prosecution are, of course, currently the subject of an inquiry by former NSW Supreme Court Judge, John Clarke QC.

The terms of reference of the inquiry, amongst other things, also cover the cancellation of Haneef's Australian visa and 'the administrative and operational procedures and arrangements of the Commonwealth and its agencies [including the AFP and

ASIO] relevant to these matters'. One of the loudest criticisms aimed at our terrorism offences, such as that with which Dr Haneef was charged, is that they are overly broad in their attempts to cover a wide range of behaviour that might be connected with terrorism and so risk peripheral players or even innocents being charged. Those terrorism offences also support enhanced powers of detention which, themselves have been criticised for their heavy-handedness, disregard for normal criminal procedures and a lack of transparency and accountability in how they are exercised.

Recent events in the inquiry only serve to emphasise the aptness of these kinds of criticisms.

In his opening statement of April 30, 2008, Clarke expressed his intention that the proceedings of the inquiry should 'as far as possible be made public'. However, he recognised that matters concerning national security or information which might place at risk ongoing prosecutions or upcoming trials in Britain in relation to the London and Glasgow attacks might affect what could be publicly released.



www.nicholsoncartoons.com.au

On July 28, Clarke issued a further statement. In it, he advised that, in light of the Metropolitan Police Service and British Crown Prosecution Service declining to allow the AFP to authorise publication by the Inquiry of documents

sourced from those services he 'had no choice but to advise the Attorney-General that the inquiry will be unable to proceed effectively unless it is able to withhold publication of a large part of the proceedings.' To do otherwise, he said, would 'seriously damage the international relationship between the two countries' when the maintenance of such a relationship was 'an important element of national security'.

Dressed in a regulation jumpsuit, Haneef is huddled at the far end of the gleaming metal interior of the van

So, while the submissions by ASIO (setting out its consistent advice to government and other agencies that Dr Haneef posed no security threat) and the Queensland Police Service (stating that it had told the AFP that there was not enough evidence to charge Dr Haneef with a s 102.7 offence) are readily available on the inquiry website, the AFP submission is not. Nor, following Mr Clarke's statement of 28 July, will statements, transcripts of interviews or related

documents be posted on the Inquiry's website.

What should not be forgotten, however, is that there already exists on the public record a statement from a senior AFP officer about that agency's approach to the charging and prosecution of terrorism offences. That statement, which has already been drawn to

the attention of the inquiry by the Australian Lawyers Alliance, was made in the context of another prosecution that of university student Izhar ul-Haque who was charged with training with a terrorist organisation in Pakistan. The charges

against ul-Haque were dropped in November 2007 after Justice Adams ruled certain records of interview inadmissible as evidence.

As was widely reported at the time (including by Sally Neighbour in *The Australian*, November 13, 2007), senior AFP agent Kemuel Lam Paktsun told the court that the AFP was acting under directions to test the limits of the terrorism offences: 'At the time, we were directed, we were informed, to lay as many charges under the new terrorist legislation against as many suspects as possible because we wanted to use the new legislation. So regardless of the assistance that Mr Ul-Haque could give, he was going to be prosecuted, charged, because we wanted to test the legislation and lay new charges, in our eagerness to use the legislation.'

Those terrorism offences also support enhanced powers of detention which, themselves have been criticised for their heavy-handedness

Whatever eventually comes out of the inquiry, there are already several conclusions that can be drawn by interested observers. First, the very broad scope of offences such as s102.7 makes it possible for a serious terrorism charge to be laid against someone like Dr Haneef. Second, the broad detention powers attaching to the terrorism offences allow for someone like Dr Haneef to be held for days at a time before such charges are even laid. Finally, the concept of 'national security' allows for government agencies like the AFP to avoid public scrutiny of how it goes about its business.

So much for accountability.

This is an edited version of a piece originally published in The Canberra Times on 11 August 2008.

Climate Change: Weitzman and the ‘fat tail’

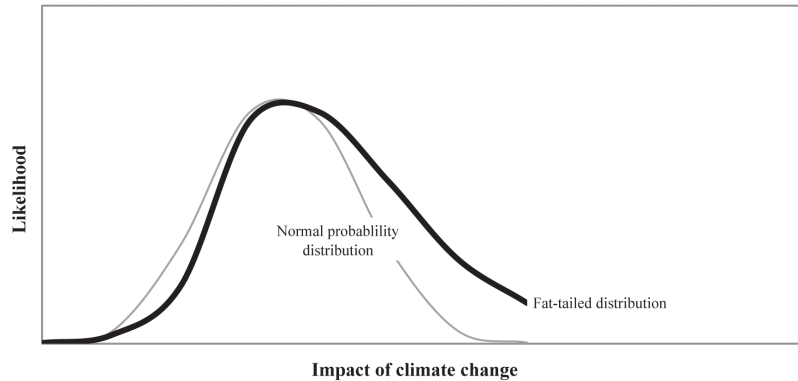
The general scientific consensus cannot rule out the potential for ‘disastrous’ climate change. Research fellow Dave Richardson discusses some implications of Martin Weitzman’s work on the probability of this outcome.

An American economist, Martin Weitzman at Harvard University, has been examining some of the climate change science and reaching some alarming conclusions. His arguments tend to be highly technical so this article attempts to put some of that work into plain English to make it more accessible.

The climate change debate has alerted most people to the impact of increases in carbon dioxide levels on the world’s temperature. The Intergovernmental Panel on Climate Change (IPCC) came to the view that a doubling of carbon dioxide levels would lead to an increase in world temperatures in the range of 2 to 4.5°C with 3°C the most likely. The IPCC said it was unlikely that the increase would be less than 1.5 °C but it could not rule out increases higher than 4.5°C. So the most likely result is 3°C, and the probability of a result below 1.5°C quickly falls to zero. The science to date gives a virtual zero probability that the global warming sceptics will be proven correct.

The serious concern is that the probability of an outcome above 4.5°C does not fall to zero, as might be expected. Instead there is a small but real chance of temperature increases much higher than the current debate has acknowledged. While the processes and feedbacks associated with global warming can be identified, it is difficult to narrow down the range of outcomes they are likely to produce. Weitzman is concerned about the 15 per cent probability that the temperature increase will be above 4.5°C. This is what he calls the ‘fat tail’ in the ‘probability density function’.

All of this may sound a bit puzzling for people not used to thinking in probabilistic terms. It can perhaps



be explained by thinking about the dart board at a local pub. There is a high density of holes around the bullseye and to a lesser extent around the rest of the dart board. Typically there is a board behind the dart board designed to protect the wall from darts. The back board has holes in it but nowhere as many as the dart board itself. And the further from the dart board we move, the fewer holes there are. By the time we examine the area where the spectators stand and other patrons gather there are no holes, although they cannot be ruled out entirely. If we think of each hole as a statistical event then that is what we expect. The bullseye is the central prediction and the frequency of holes falls away rapidly with distance from the dart board.



Continuing the dart board analogy, Weitzman has examined the ‘holes’

going from the central tendency for climate change predictions, which are bad enough, and examined the ‘holes’ on the way to massive disaster, i.e. the number of ‘holes’ which would indicate global warming above 10°C. The studies show that the probabilities are worryingly still too high even that far away from the central estimates of 3°C. That is like finding too many holes well to the right, a long way from the dart board and where the spectators sit. In this particular pub the owner would be well advised to invest in a screen to protect the patrons.

This is what Weitzman calls the ‘fat tail’. Instead of tailing off quickly the further from the dart board, the incidence of ‘holes’ around the spectators is still uncomfortably high.

For some reason one or more of the dart players have a serious bias towards accidental hits well to the right of the dart board. In the same way, when scientists examine the possible outcomes of global warming they find that natural processes imply a serious possibility of outcomes well above the expected outcome. Even though a good deal of the work has been devoted to trying to eliminate this fat tail, the attempt has been unsuccessful. Not only is there insufficient information about the impact of higher temperatures, but the

factors involved and their strengths are also uncertain. As Weitzman puts it, we 'are trying to extrapolate inductive knowledge far outside the range of limited past experience'.

The fat tail has implications for estimates of the costs of climate change. At the moment the science cannot rule out a five per cent probability that the ultimate temperature change will be 10°C or more, nor can it rule out a one per cent probability of a 20°C increase. Temperature changes of these magnitudes would destroy planet Earth as we know it.

In simple terms Weitzman is suggesting that extreme events should be weighted not only by their low probability but by their degree of devastation and what that means to us. Even if there is only a small likelihood of truly catastrophic outcomes any probability-weighted study of the costs and benefits is going to find that the extreme costs of even low

probability events will dominate the results. Indeed, Weitzman's results suggest that the discussion has been unnecessarily focused on the central tendency in climate change, which is bad enough, rather than the low probability - high devastation outcomes.

Weitzman's 'dismal theorem' says that as the expected devastation from a low probability event increases we would do almost anything (with an effort approaching infinity) to eliminate that possible outcome. However, most of the climate change debate has glossed over these possible outcomes. The consequences of the one-in-a-hundred event would be so severe that they require attention out of proportion to their low likelihood. The implication of this is that we should be willing to pay a very high amount to insure against the consequences of climate change. Any costs involved in a carbon mitigation or trading scheme seem almost trivial

when set against the possible consequences of extreme climate change.

Generally, plans to halt climate change with technical interference rather than striving to reduce emissions are problematic. Nonetheless, 'quick-fix' geoengineering solutions such as mirrors in space or firing tonnes of sulphur into the atmosphere are being discussed. Weitzman's 'dismal theorem' makes investing in scientific preparedness to combat catastrophic climate change an appealing option to individual countries. This raises the risk of unilateral attempts at ill-considered measures that could have unforeseen consequences. For this reason there is a strong case for creating international treaties to rule out such rogue actions by states desperate to eliminate the dangers lurking in the 'fat tail'.

Life's inevitabilities: death, taxes and another Rudd review

Research Fellow David Richardson outlines the Institute's position on the Henry Tax Review.

On Budget day this year the Government announced a review of the tax system to be headed by the head of Treasury, Ken Henry. Subsequently it published a discussion paper on 6 August. More recently, the Review Panel called for public submissions as part of its consultation process. Submissions are to be made by Friday 17 October. The Panel will then initiate further discussions with stakeholders, following which, the Henry Tax Review will publish a report on the consultation process by the end of 2008.

The Australia Institute is working on a series of submissions to the Henry Tax Review. If anything is sure it is that the views of the corporate sector and those of wealthy individuals will be well canvassed. It is important, therefore, that the Review hears the alternative views. This article outlines just a couple of the themes that will be raised in the Institute's submissions.

It is not possible to talk about the right tax system without also talking about the appropriate **level and direction of government spending**. During the Howard years the terminology in the Budget Papers was changed so that instead of referring to 'outlays' they now refer to 'expenses'. For some that may

have just been a technical change, reflecting changes in accounting standards derived from the private sector. However, the subtle ideology of the change needs to be recognised. For a company presenting its annual report to shareholders there is nothing intrinsically 'valuable' about an expense. Expenses are just

the necessary costs of doing business and it is best if they can be reduced or eliminated. But government expenses are not annoying costs that must be tolerated. Our universities are not annoyances that are best minimised or eliminated, nor is our

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health system, the age pension and so on.

The tax review's discussion paper barely addresses the level of government spending. There is an extensive discussion of the transfer system - the various income support payments - but that is as far as spending is mentioned. Of course, however, spending issues are critical. If, for example, there are government programs that need to be introduced then there are revenue implications. Few are suggesting that the present level of government spending is at exactly the right level, yet the review does not even acknowledge that spending and taxation have to be considered jointly.

Another important theme of the Institute's submission will be the **equity and fairness** of the Australian tax system. Equity and fairness are critical to community support for the tax system as a whole. Equity and fairness include equal treatment for people with similar circumstances. They also imply that the burden of tax on individuals should reflect income. In particular, an equitable and fair tax system should impose proportionately higher burdens on people with higher incomes. People on lower incomes should have a lower tax burden both in absolute and relative terms.

Equity and fairness have long been regarded as critically important in the design of tax systems in Australia and overseas. The IMF has said:

It is widely accepted that policy-makers should focus on developing a broadly based, efficient, and easily administered tax system with moderate marginal rates. An important subsidiary issue is how to distribute the burden of taxation so the system is seen as fair and just.

Unfortunately, the objectives behind some of the views on tax reform in Australia conflict with equity and fairness. For example, there are

assertions that Australia's global competitiveness requires lower taxes for both companies and higher income earners.

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The implication of such views is that tax systems should not redistribute from the high to the low income groups. Rather redistribution, if any, would take place within the middle to low income ranges.

At the moment global pressures towards lighter taxation on corporate and high incomes seems to be much overstated. For example, foreign investment continues to flow into Australia from OECD countries where tax rates are similar to Australia. It also flows in from places such as Hong Kong and Malaysia, where corporate tax rates are lower. Clearly Australia has a number of other attractions for foreign investors. Tax rates are only one of many influences over a foreign investor's decision on where to locate.

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There are other areas where the tax system has departed widely from the ideals of equity and fairness. The changes brought in during the dying stages of the Howard Government have given benefits to the rich under the guise of 'simplifying' the superannuation system. Australia's superannuation system always depended on tax concessions to those who locked their money away in super. However, we have now reached the stage where the government spends

more than \$27 billion per annum just on tax relief for super. In the meantime the total spending on the age pension, those retirees who really need it, is actually lower at \$26.7 billion.

Equity and fairness must be considered guiding principles for the tax review. But the Australia Institute's submission will also address some of the more pragmatic considerations. For example, the tax treatment of long life assets used in the production of renewable energy is an important issue. Our submission will therefore take up the issue of **long-life renewable energy investments**. Most energy generation requires massive amounts of capital with a long expected life and a commensurately long payback period. Investment in large capital projects has always been financially risky, and renewable energy sources tend to be even more capital-intensive than traditional plant. Such projects are also subject to the additional risk of being overtaken by technological developments. For example, at the moment solar thermal is believed to be more economic than photovoltaic plant. However, expected cost reductions are likely to reverse the relative positions of solar thermal and photovoltaic. Investors are naturally inclined to wait until things settle down, just like many people did before they decided between a plasma or an LCD television. The Institute will argue that the natural reluctance of investors to invest in long-life renewable assets is an argument for accelerated depreciation allowances and other government initiatives.

The Australia Institute's submissions to the Henry Tax Review will cover these topics and more. If you have something that you think should be part of our submissions, please send your contribution to mail@tai.org.au.

Member survey – the results

Josh Fear describes the results of the recent survey of members, and explains how the Institute is responding to your feedback.

The recent online survey of members generated a huge response, with more than half of our members completing a questionnaire. Here are some of the interesting findings.

The issues that members care about most are those on which the Institute has had a strong voice in the past: economic rationalism, climate change, government accountability and wellbeing. We will continue to concentrate on these in our future work, along with new topics that deserve attention.

The table below ranks the 10 most important issues for the Institute, as judged by members.

Members think the Institute has been quite good at certain things, like disseminating new ideas and conducting research. Yet there is room for improvement, for example, in influencing government policy more effectively. As outlined in the previous newsletter, the Institute's work in the future will increasingly focus on practical solutions to the problems our society faces.

One of the strongest messages from

the survey is that members want to become more involved in the work of the Institute. We are therefore working on various ways that members can have contact with us and with each other.

Most members said they would be interested in coming to an event hosted by the Institute, so we intend to organise more events. These will be on topics that members said were of interest to them: the environment, progressive economics, government accountability and social inclusion. A recent event, with Minister Tanya Plibersek held in Canberra on 25 August, was a great success (see article on page 7).

For members in other locations, we plan to run events in as many cities as we can. These will provide an opportunity to meet our researchers and to hear about the Institute's latest work. Our newsletter and new e-bulletin (see below) will keep people posted.

One of the most surprising survey findings (at least for us) is how many members take the time to read our newsletter – a staggering 99 per

cent! Given this level of interest, we're planning to send out a more regular e-bulletin by email to all our members and supporters. Of course, members will continue to receive this newsletter every quarter. And you may notice that this edition of the newsletter is bigger than usual.

Members will be able to make contributions to the e-bulletin, for instance by submitting short articles on issues they care about. You will hear more from us on this soon, but if you would like to suggest a good name for the e-bulletin, please do so by emailing us at mail@tai.org.au.

Members of the Australia Institute have very distinctive demographic characteristics. They tend to be older than average, with half (51 per cent) over the age of 55 and 88 per cent over 35. Two in three (65 per cent) are male, and the great majority are university educated.

We are very grateful to those members who completed the survey. Congratulations to the ten lucky people who won a copy of *Dear Mr Rudd: Ideas for a Better Australia*.

In the future, which of these areas do you think TAI should focus on?

Topic	Rank
Climate change, fossil fuels and renewable energy	1
Economic rationalism and the social impact of markets	2
Politics and government accountability	3
Materialism and wellbeing	4
Distribution of income and wealth	5
Other environmental issues	6
Honest and open debate	7
Education and universities	8
Health and healthcare	9
Population and ageing	10

Panning the regulators?

Research Fellow Hilary Bambrick asks what kind of precedent does the Federal Government's payout of damages to Pan Pharmaceuticals set for public compensation of corporate loss?

In 2003, 19 people were hospitalised after taking medications manufactured by Pan Pharmaceuticals. The regulatory agency for medical drugs and devices, the Therapeutic Goods Administration (TGA), investigated and alleged serious safety concerns including falsified records, incorrect dosage and contaminants. Products were recalled, the factory shut down and everybody cheered; here was a seemingly prompt and appropriate response from the regulatory body responsible for safety.

These actions also served as a wake-up call to other manufacturers of complementary medications to pull up their socks and deliver on improved consumer safety.

For the 300 workers suddenly out of a job this must have been devastating, likewise for Pan's creditors and business associates. For the rest of us it was merely annoying as we had to look elsewhere for our supplements. Trawling through less familiar brands we were compensated by the conviction that the system worked and that action had been taken with our best interests at heart.

As well as apparently protecting consumer health, the Pan closure provided a welcome sign that complementary medicine - and the extent of its reach in the community - was being taken seriously. These actions also served as a wake-up call to other manufacturers of complementary medications to pull up their socks and deliver on improved consumer safety.

How is it that now, five years later, the TGA must pay \$55 million to Pan founder, Jim Selim, as compensation for destroying his business? Selim's

supporters have labelled the TGA vindictive and the compensation well-deserved.

But wasn't the TGA just doing its job?

We need the TGA, and other government regulatory bodies, to keep their teeth.

Selim alleged that the TGA had pursued a vendetta against him and had abused the power of public office in its suspension of Pan's licence in 2003; he successfully won damages in the Federal Court in mid-August 2008. I wonder how much of the \$55 million will be seen by the 300 people made jobless, or by the 19 people who got sick? Apparently in its decision to suspend the licence, the TGA overstepped the recommendations of an expert advisory committee who had previously found that the company posed no imminent risk and thus did not satisfy the criteria for suspension. Other than a statement that they will not overturn their allegations against Pan, there has been no public response from the TGA.

I wonder how much of the \$55 million will be seen by the 300 people made jobless, or by the 19 people who got sick?

In August The Australian revealed that more than a hundred other companies and shareholder groups are considering a class action against the Federal Government in pursuit of damages arising from the Pan suspension. Obviously not all of these parties are purveyors of alternative medicine. Indeed, the Pan

decision may trigger an avalanche of claims from big business — or anyone with grounds to claim that a poorly administered government decision has cost them.

As both a consumer and a population health researcher, I find this prospect utterly alarming. If a government authority takes action that is in the public interest and costs a company, then so be it. That's the burden of responsibility and the price of being in business. But post-Pan, if action is taken against a business for allegedly dangerous practices, there is a real risk that government will have to bail them out. Where does the burden of responsibility now lie?

If a government authority takes action that is in the public interest and costs a company, then so be it.

One can already hear Australia's energy industry barking even more loudly at the compensatory door as they seek massive amounts for expected cost increases arising from an emissions trading scheme.

We need the TGA, and other government regulatory bodies, to keep their teeth. We also need them to behave respectably and transparently. The TGA must now come clean about what went on behind the scenes in the Pan case if it has a chance of regaining authority.

This is an edited version of a piece originally published on newmatilda.com on 3 September 2008.

States shouldn't miss out under an ETS

Richard Denniss explains why state governments deserve more compensation for an ETS than the big polluters.

While much has been said about the need to compensate households and businesses for the impact of emissions trading, new research by the Institute has found a few big holes in the current compensation arrangements.

The introduction of emissions trading is designed to increase the cost of energy from fossil fuels and an inevitable consequence of that is an increase in the price of goods and services, especially ones that 'embody' a large amount of fossil fuels. The whole point of an ETS is for these 'price signals' to encourage firms to change the way they produce and for consumers to change the things they consume.

That said, while the whole point of emissions trading is to increase the price of some goods and services that doesn't mean that as a society we must be indifferent about the impact of those higher prices on individuals. On the contrary, by selling permits to pollute, rather than letting companies pollute for free, the Commonwealth Government will have an entirely new, and very large, source of revenue with which they can provide assistance to any group that they think deserves it. The question is, who will be deemed to 'deserve' compensation by the Rudd Government?

According to the Green Paper and the comments of a range of Ministers, the Commonwealth is planning to give most of the revenue from the ETS back to households, the big polluters (with some money put aside for investments into research and development) and new low emission energy assets.

Interestingly, there is no mention of the need for the Commonwealth to compensate state governments, local governments or the

The table below shows the likely annual costs to each state per millions

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
Cost to state budgets	466	358	289	99	159	22	16	26	1,435

community sector in the Green Paper. A recent paper published by the Institute entitled *The Impact of an Emissions Trading Scheme on State Government Budgets*, by David Richardson and Richard Denniss, found that there is a very strong case for the Commonwealth to provide the states with \$1.4 billion per year in compensation.

The problem is that while everyone has been thinking about households, and the big polluters have been thinking about themselves, there hasn't been a lot of thought about all of the potential impacts of the ETS and, in turn, all the groups that might need compensation.

Consider how the ETS will affect the states. The Green Paper assumes that the impact of polluters passing on the cost of permits to consumers will increase the price of electricity by 16 per cent, and state governments buy a lot of electricity. Hospitals, schools, police stations and office buildings all use a lot of energy to run lights, heating, air-conditioning, lifts and other machinery. Not surprisingly, electric trains and trams, while not always owned by state governments anymore, use a lot of electricity as well.

But the costs to state budgets go much further than the costs of electricity. According to the Green Paper the introduction of an ETS will likely increase inflation by 0.9 per cent. State governments will, therefore, have to choose between finding the revenue to maintain public sector wages in real terms or letting

teachers, nurses and other public servants wages fall in real terms.

The state that will suffer the greatest impact (in absolute terms) is NSW, who will incur an additional \$466 million per year in costs. The smaller states, given their smaller budgets, will experience smaller impact in absolute terms, but all states will experience an increase in the costs of providing services of around 1 per cent.

The solution to this problem is straightforward. The Commonwealth will receive more than \$10 billion per year in revenue from the sale of pollution permits. This revenue is more than adequate to provide compensation to all groups, including the state governments, who warrant such assistance. The only problem is that the Rudd Government is under enormous pressure to provide large amounts of compensation to the biggest polluters, including coal fired power stations. Every dollar provided in compensation to such polluters is a dollar that cannot be used to compensate teachers and nurses or invest in renewable energy.

Interested in this? Using the same methodology the Institute has just published a paper examining the case for compensation for the community sector and local governments. Check it out at mail@tai.org.au.

Institute notes

New Publications

G. Edgar, *Agreeing to Disagree: Maintaining dissent in the NGO sector*, Discussion Paper 100, August 2008.

D. Richardson & R. Denniss, *The Impact of an Emissions Trading Scheme on State Government Budgets*, Research Paper 54, August 2008.

D. Richardson, *Who are the (un)intended losers from Emissions Trading?*, Research Paper 55, September 2008.

Forthcoming Publications

J. Fear, *Choosing Not to Choose: Making superannuation work by default*.

H. Saddler & H. White, *Agriculture and Emissions Trading: The impossible dream?*

S. Harris Rimmer, *Character as Destiny: The dangers of character tests in Commonwealth law*.

INSTITUTE UPDATE

Staff Changes

It's a busy time at the Institute at the moment with lots of coming and going.

Dave Richardson and Hilary Bambrick have both taken up positions as Research Fellows. Dave is an economist with a unique set of experiences. In addition to having worked as an Adviser to former Deputy Prime Minister Brian Howe and former Immigration Minister Nick Bollock, Dave was also the Senior Economist in the Parliamentary Library for more than a decade.

Dr Hilary Bambrick is an epidemiologist with a particular interest in public health issues. In addition to her work at the Institute, Hilary is working as a Senior Lecturer in the School of Medicine at the University of Western Sydney. Hilary has previously written a Discussion Paper for the Institute, *Trading in Food Safety*, and will be working on a range of issues related to the regulation of Australia's health system, in particular the 'market' for blood and organs.

Sadly the Institute is losing Susan Harris Rimmer who is heading back to ANU where she will be working with Professor Hillary Charlesworth and writing a book. Susan has made an outstanding contribution to the Institute both as Deputy Director and Acting Director as well as writing an upcoming Discussion Paper on the increasing reliance on character tests in Australian law. We wish her all the best.

Discussing our Discussion Papers

Beginning with our next Newsletter we would like to invite feedback from our members about our research. We would love to hear your thoughts about our research but also about Australia more generally. Please keep 'letters to the editor' under 200 words and we will try to publish as many as we can. Email your letters to mail@tai.org.au or write to us at PO Box 4345, Manuka ACT 2603.

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GDP is equivalent to \$1.2 billion – the defence budget is currently in excess of \$22 billion per annum, with total Commonwealth Government spending of more than \$294 billion in 2008-09.

It is also important to consider that a forecast 0.1 per cent reduction in the rate of GDP growth is so small that it is dwarfed by the margin of error that surrounds macroeconomic forecasts. For example, the Commonwealth

budget papers typically include forecasts of the rate of GDP growth for the budget year and the three years ahead. As shown in the table below, the budget papers between 1996-97 and 2007-08 included 38 forecasts of GDP growth, 28 of which were for a growth rate of 3.5 per cent. The average absolute error for these forecasts was 0.7 per cent.

The 0.1 per cent disruption to GDP growth that will result from these

very conservative cuts should go more or less unnoticed, being significantly less than the average margin of error for GDP forecasts. Why then, is the government not considering deeper cuts that would have a similarly insignificant effect?