

WORKING TITLE: Climate Debate's Next Top Dodgy Model

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Economic modelling is part of the latest attempt to shoot down carbon tax proposals, but as with all models it's a case of 'garbage in, garbage out'.



by [Richard Denniss](#)

Australia can't have a grown-up debate about reform until we stop having juvenile debate about economic modelling. A government that thinks its most persuasive argument begins with "but economic modelling shows" should have as much chance of shifting the economic debate as Bronwyn Bishop had of shifting Australians' attitudes to the role of helicopters in political travel.

Economic modelling is again front-and-centre in the latest remix of "the carbon tax will ruin the economy". Apparently, reducing taxes on labour and replacing them with a tax on pollution -- a switch supported by virtually all academic economists -- would "cost" the economy \$600 billion! Nearly half of our current GDP! And real wages would "plummet"! Plummet, I tell you!

Of course it's all complete rubbish. Not only does the old modelling adage of "garbage in, garbage out" apply, the already dubious results were stripped of all meaning by those who decided to present them in the "scariest" possible lack of context.

Let's start with the basics. No modelling exercise ever conducted has shown that a carbon price will shrink the economy, reduce wages or lead to lower levels of employment. None.

What some modelling exercises do show is that if we introduce a carbon tax, GDP, employment and wages might grow slightly slower than they otherwise would. There is a big difference between saying "my child is shrinking" and "I don't think my child is growing as fast as her friends".

There are good reasons to believe that cutting income tax rates and introducing a carbon price would boost the economy, not harm it. Indeed, calls for a bigger GST are based on just such an assumption. The fact that most of

the politicians who rage against the great big carbon tax on everything are the ones who want a mature debate about the GST speaks volumes about the role of consistency in modern politics, and modelling. Take the Prime Minister's foray into the Carmichael mine case, for example. In criticising a court for enforcing the law, Tony Abbott claimed that the proposed Carmichael/Adani coal mine in Queensland's Galilee basin would create 10,000 jobs. Leaving aside that Mr Abbott was elected on a promise to cut 20,000 public sector jobs, the problem with this claim is that it ignores Adani's own economic modelling.

It is true that Adani once claimed in television ads that its project would create 10,000 jobs. But when it came time to argue its case in court, its own hand-picked economic consultant, Dr Jerome Fahrer from ACIL Allen, agreed that this number was based on dodgy modelling and was a significant exaggeration.

According to Dr Fahrer, "over the life of the project ,it is projected that, on average, around 1464 employee years of full-time equivalent direct and indirect jobs will be created". In deciding whether the PM or Dr Fahrer is closer to the truth, it's important to remember that lying to the public is OK, but lying to a judge is a crime.

But Dr Fahrer's direct contradiction of the PM's claim isn't the most surprising thing about his modelling of the Carmichael mine. That prize would have to go to his assumption that the construction of one of the world's largest coal mines would lead to a reduction in the world supply of coal. You can read that sentence again, if you want, but it still won't make any sense.

Today's politicians seem to forget that the major reforms of the 1980s, such as the floating of the dollar, were achieved without economic modelling. Politicians who were across their brief actually made a case for their preferred reforms, rather than waving concocted reports at each other.

The problem for Tony Abbott is that the climate change modelling he is so keen to talk about was done by ACIL, and the Carmichael modelling he is so keen to ignore was done by, you guessed it, ACIL. Australia needs a debate about where we want to head, and the best ways to get there. But dodgy modelling does not a mature debate make. There is no reason for the public to take scary economic claims seriously when not even the people who model them do.

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