



The **Australia Institute**

Research that matters.

# **Brief: A Code of Conduct for Economic Modelling**

## **Ensuring transparency, quality and consistency**

---

*The Australian Government could set a higher standard for economic modelling used to inform policy decisions by establishing a code of conduct.*

Discussion paper

**Richard Denniss**

**March 2016**

## **ABOUT THE AUSTRALIA INSTITUTE**

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

## **OUR PHILOSOPHY**

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

## **OUR PURPOSE – 'RESEARCH THAT MATTERS'**

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.tai.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, 1 Franklin Street  
Griffith, ACT 2603  
Tel: (02) 61300530  
Email: [mail@tai.org.au](mailto:mail@tai.org.au)  
Website: [www.tai.org.au](http://www.tai.org.au)

# The need for minimum standards

This paper calls for a code of conduct for economic modelling.

A code would require key assumptions to be revealed, context and comparison to be provided, and the identification of who, if anyone, commissioned the work.

Modelling results are being used to make important policy decisions that have the potential to affect all Australians. Modelling has been pushed into the centre of the Australian political debate on a range of issues, often by an unknown vested interest.

A prime example is the flawed and ridiculous BIS Shrapnel economic modelling of negative gearing.<sup>1</sup> While the startling allegations in the BIS Shrapnel report have been quickly torn apart by many economists, it has nonetheless misinformed and mongered fear among the public.

BIS Shrapnel refused to identify who commissioned their work and the key assumptions used were not made clear.

Auditors have a code of conduct because financial information is open to abuse and people rely on this information to make important decisions. Actuaries in Australia have a code of conduct that includes context, basic rules and a declaration of fairness and accuracy. A consistent standard would be in the interest of the economic modelling industry and its reputation.

We call on the government to develop a code of conduct to ensure that economic modelling used to inform policy decisions is transparent and of a high standard.

---

<sup>1</sup> Anderson (2016) *Row erupts over BIS Shrapnel negative gearing report*, <https://www.abc.net.au/news/2016-03-03/federal-government-attacks-labors-negative-gearing-plans/7216166>

# Principles

State and federal governments are the main audience for economic modelling. In turn, they have a unique ability to influence the behaviour of economic modellers by simply requiring that all modelling aimed at influencing government decisions conform to minimum standards.

The aim of economic modelling should always be to assist the understanding of an issue rather than to restrict discussion of it. The use of economic modelling could be improved by governments insisting on the following principles or code of conduct.

## **Code of conduct for economic modelling**

- 1) Clearly disclose who, if anyone, commissioned a piece of work.**
- 2) Clearly discuss key assumptions and provide sensitivity analysis where appropriate.**
- 3) Provide an explanation of the choice of model and, where appropriate, discuss the pros and cons of alternate choices of model (for example input-output modelling versus computable general equilibrium modelling).**
- 4) The author(s) of a report should be made clear and the author(s) should take responsibility for both the plausibility of the results and the appropriateness of their presentation, including the presentation of their work by those that commissioned the work.**
- 5) Full modelling results should be made publicly available at the time of their release to the media.**