
PANEL SESSION 3

Comments and discussion

Mark Harrington (Electricity Trust of South Australia)

Don, have you considered the applicability of United States–style contingent valuation to Australia?

Don Gunasekera (Industry Commission)

In terms of contingent valuation ... we haven't looked at that particular issue. It all depends on what circumstances or for what purposes we use the particular approach.

Graciela Chichilnisky (Columbia University)

What type of evaluation do you use in the case of damages?

Don Gunasekera

We didn't look at specific evaluation methods. What we did was to give some examples, such as load base licensing and performance bonds, basically looking at areas where they have been applied but not to evaluate them. That wasn't the purpose of our exercise.

Robin Stewardson (BHP Pty Ltd)

Could I just add a comment about contingent valuation. It seems to me that it is most useful and effective the more localised the issue because people will understand the issue better and because they will realise in being asked how much they would be prepared to pay for something that there is a genuine possibility they might well be asked to pay for it. The wider and more geographically dispersed the issue, the harder it is for that particular method to be effective.

Graciela Chichilnisky

Absolutely. This has been a general finding. The most difficult thing that people have in mind with trying to decide on this valuation you have to ...(indistinct)... the problem. There is just a contest.

Dick Damania (Flinders University)

My question is more towards Don. Given the paradigm endorsed by the Industry Commission I am surprised you didn't mention anything about the double dividend gains in switching to a set of pollution based taxes or externality correcting taxes. The notion that we have ...(indistinct)... switch from the existing distortionary tax base to an externality correcting tax base and that generates a double dividend in terms of economic welfare, efficiency and so on, which is one of the key features which ...(indistinct)... the debate in the European Union ...(indistinct)... look at it and perhaps you could suggest why.

Don Gunasekera

There is some literature on that. We didn't look at that issue but if you look at Clive Hamilton's work a few years ago looking at the Greenhouse issue where he was talking about the use of carbon taxes, it could basically be just an environmental problem; it could also raise revenue. There are arguments for and against some of those concepts. But the key issue is that the tax reform is a much wider issue. The Commission is not looking at individual tax issues. That wasn't the purpose of our report. Also, in our report we did not recommend any particular measure.

The idea basically was to look at the extent to which economic instruments had been used in different areas and what lessons can we learn from that. That was the idea, rather than evaluating each and every economic instrument. This morning you talked about the double dividend taxation arrangement. You also spoke about the advantages as well as the disadvantages and also you talked about moving away from taxation to, let's say, tradeable permit schemes. It all depends on what particular sort of environmental problem that you are looking at. If you look at the Greenhouse issue, there is evidence to suggest that a tradeable permit scheme would be preferable to a carbon tax system given the uncertainty regarding the whole question of Greenhouse. So I think it is a case by case type analysis rather than just advocating one measure.

Peter Dixon (Monash University)

My remarks are directed to Robin Stewardson. Robin quoted ABARE [Australian Bureau of Agriculture and Resource Economics] results extensively in his talk. Is he worried about the fact that the ABARE research on Greenhouse is financed largely by people who benefit from burning fossil fuels? Is he worried about the fact that the model is not available for public scrutiny — it is not available to people like me to check it out or run it? Is he worried about the Prime Minister's rather exaggerated use of recent ABARE results? The Prime Minister quoted an ABARE result along the lines that Australia reducing its greenhouse emissions 10 per cent below the 1990 level by the year 2010 would reduce Australian wages by 20 per cent, which is really nonsense.

Graciela Chichilnisky

So you are asking about the use of ABARE?

Peter Dixon

Yes, I am asking about whether I might get a comment from Robin because his firm actually does help finance this model, and it seems to me it's totally inappropriate that Australia's major economic research on Greenhouse should be financed by people and firms who appear to be benefiting from continuing to burn fossil fuels.

Robin Stewardson

The short answer to your question is, no, I hope it will be and I can't be held responsible for every detail of what the Prime Minister says. To elaborate on that, some years ago, in fact generations ago, there was a Melbourne University revue which had an item which was a bit of a skit on one of Melbourne's very prominent families and in order to try and take some of the bite out of the skit the said husband and wife in the prominent family came and sat prominently in the audience every night of the performance in order to try and deter the performers. I felt rather like that seeing you up there today. No, I don't think that it's inappropriate that we are contributing to the funding of GIGABARE.

It would be very nice if the government or ABARE itself, through government funding, were able to fund it itself without us having to help them. But as I said in my speech, I think it is very important that this issue, which is an important one for Australia, should be determined on the facts and that they should be

analysed and known as well as possible. So I think it is desirable that ABARE and other organisations, such as your own, do as much analysis as possible so the facts are known as well as possible. If the Government is not able to fund it adequately then I see absolutely no reason to excuse firms that have an interest in it funding it as well.

We would welcome any funding. As far as the fact that you can not run it at the moment, the GIGABARE team are working very hard to get the thing documented, to get it out into the market place to be tested by their peers, such as yourself. The problem is limited resources to actually get everything done all at once. But they are working very hard to do that, which is something that I know that you, in previous debates with other institutions, have always wanted to have done.

Graciela Chichilnisky

I have had an opportunity myself, I am taking the advantage as the chairperson here, to hear the very presentation that Peter Dixon was referring to and I was surprised to the extent that the results that were reported were relatively poorly documented. In particular, there was very dramatic results of the shift of industry away from Australia that were driving most of the conclusions. An example for Korea was also of that nature. When trying to investigate where did that come from and whether it was connected to any empirical testing or such type of situations, none have been done. I mention that because in the United States it has been shown that environmental regulation had practically no impact on the relocation of firms and this initially was believed had a big impact.

It was assumed it would have a big impact in connection with the discussion about NAFTA [North American Free Trade Agreement]. Two years later, after all the research came in, it was seen that this was theoretically possible but empirically it just didn't happen. Here the ABARE model builds its assumptions on the opposite empirical conclusion. There is a number of other things of that nature. That model has no empirical basis, it is mostly a scenario running for the future and it has no clear assumptions of about what...(indistinct)... even for that. So I also found, like Peter, that the model was in the process of perhaps being perfected. What I questioned in that situation is whether it should be put out before it is perfected and before the information is given to their peers so that we can look at it. That is my only concern because we know that business, as well as the government, sector is not as trained as the academic sector to look at models of this nature in a critical fashion. So I found

the presentation nice, very interesting, very entertaining, but I worried about it, as a foreigner.

Robin Stewardson

Could I just add very quickly that there have been quite a lot of presentations of not just the model output but the model itself to a group, and Peter could probably help me with the name of it, I think it has either met in Japan most recently or maybe it is based in Japan, of model builders who review and critique models for one another.

Peter Dixon

If I may, I think the only definitive way of having a model reviewed by peers is to make it available and let people who are not particularly friendly to it to actually run it. That has been the approach of the IAESR [Institute for Applied Economic and Social Research], when I was there, and the Centre of Policy Studies, when I was at the Centre of Policy Studies and the Impact Project for many years. We made our models available to people who were not particularly friendly to us and that is the way that you find out what you have got wrong with it. I can encourage ABARE to do to the same.

Robin Stewardson

They are trained to do that as quickly as possible.

Peter Dixon

I think it may well be premature for the Prime Minister to ...(indistinct)... the policy on ABARE simulation before that process has happened.

Graciela Chichilnisky

I will have to suggest that we move to another debate, but I thank very much Peter Dixon for this information and the discussion has been very enlightening.

