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Alan Jones fosters robust debate while Ross Garnaut hides his models

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IT'S hard to disagree with Ross Garnaut that China's slowing growth will place new pressures on our economy. But the implications he derives from that are wrong-headed. And that is unsurprising, as they are driven more by the politics of protecting the carbon tax than by sensible economic analysis.

Garnaut's prescription is straightforward. It's time, he said on ABC1's Lateline program earlier this week, to shift our focus towards "high-value manufactures and high-value services". That is a view Garnaut has long held: his 1989 report to the Hawke government endorsed "winner picking" strategies, including the ill-fated multi-function polis, in the process largely misjudging the future composition of our exports.

Whatever Garnaut may think, the reality is that we are and will remain a commodity-based economy. Blessed with a natural resource endowment that is among the highest in the world and extraordinarily diverse, comparative advantage drives us to specialise in mineral resources and agricultural production. No surprise then that our prosperity has always rested on putting that endowment to good use. The challenge is to ensure we continue to do so in the face of falling prices, slowing demand and the rapid development of competing sources of supply.

Declaring defeat and vacating the field to resource rivals from Canada to Brazil, Mozambique to Mongolia, is hardly a sensible way of achieving that goal. On the contrary, a sharper focus is required on our cost competitiveness in every step of major resource projects, from initial exploration to construction and operation.

That is all the more important as we have plenty of room for improvement. On average, thermal coal projects are running three years behind schedule. Environmental approvals alone now take four years for major resource projects, while the whole approvals process, including state and commonwealth sign-offs, averages five years but can run up to a decade.

Along with mounting delays have come escalating costs. Labour costs in resource projects, for example, grew at 9 per cent a year between 2001 and 2011 and are now more than double pre-boom levels.

In US dollar terms, construction wages in those projects rank among the highest in the world. With labour accounting for about half of construction costs, that makes Australian resource developments increasingly unattractive.

The latest data from respected consultancy Port Jackson Partners puts the problems in sharp relief, with PJP finding that overall costs for Australian iron ore projects are 30 per cent higher than those of our competitors. Julia Gillard's Fair Work Act, thanks to which mining is suffering a share of working days lost that is over three times its share of employment, adds to those woes. And so, crucially, does the carbon tax.

After all, some cost increases were inevitable as the rising tide of resource projects ran into supply constraints. But the carbon tax is a self-inflicted wound. Moreover, although other cost pressures should ease as demand slows, the carbon tax is intended to rise ever higher: Treasury's modelling has carbon prices increasing each year by 5 per cent in real terms.

With Australia the only major resource producer in the world to impose such a tax, all the tax can do is disadvantage our exports for no discernible environmental benefit. Nor is the effect trivial: implemented on a unilateral basis, the carbon tax is at least two times more distorting than any other tax in this country, beating royalties by a country mile.

As a result, pressures to repeal the carbon tax are likely to mount as commodity markets become ever less forgiving. So are the pressures to scrap IR laws that simply aren't working. But Garnaut isn't having any of that. Like many advocates of decarbonisation, he has always had a mixed view of the resource boom, and notably of rising coal exports. Far from standing up to the Greens, who want Australian coal production shut down, he has gone to considerable lengths to paint a grim picture of the boom's economic consequences. Indeed, were Garnaut's assessment taken seriously, killing off our coal industry would be no bad thing.

Arguing that case has led Garnaut into contortions worthy of Circus Oz. Misrepresenting a basic proposition in the economics of international trade (explained on my blog), he has, for example, claimed that by inducing a shift

of activity into mining, the boom would cause "a fall in real wages in the more labour-intensive sectors" of the Australian economy. Clearly, no such effect has eventuated, nor was it ever likely to - in fact, much as economics (and common sense) would have predicted, the opposite has occurred, with wages in the economy as a whole increasing by only 1 per cent a year less than in mining.

Not that there is much attention to facts in Garnaut's jumble of contentions. According to Garnaut, for instance, "the world's tardiness in dealing with human-induced climate change is already affecting productivity growth". Of course, he provides no evidence whatsoever for that claim. And the inconvenient truth that overall productivity has grown twice as rapidly in the US, which lacks any form of carbon tax, as in Europe, which has one in place, is conveniently ignored.

With howlers such as those, it is little wonder that Garnaut abhors critical scrutiny of what he has to say. Denouncing "a serious degeneration of Australian media and political culture", he especially deprecates the "thugs and headkickers, Alan Jones and their ilk" who have made it "much more difficult to seriously analyse serious issues". Perhaps. But in the great scale of factors that make it "difficult to seriously analyse serious issues", Garnaut's refusal to allow others to access the data and models on which his climate change report relies is no mean effort. Before throwing stones, he might consider putting his own house in order.

That is not to let Jones off the hook. He is certainly capable of making appalling errors, as his comments about Gillard's father showed. Yet the reality is that he and his counterparts bring the crucial questions of the day to an extraordinarily broad audience, in terms they relate to and value.

Doubtless, their style, including on the carbon tax, is robust and at times unseemly. But that is the Australian tradition. It is one that empowers those who would otherwise lack a voice. And it helps explain why international opinion surveys show Australians rank at the top of the scale for confidence in their democracy: because they believe our political system "expresses views that match their own".

Yes, there are other ways of doing things. The EU's emissions trading scheme, for example, was a "solution" imposed by Europe's political elites, exactly as was the euro. Forceful, divisive, public scrutiny never got a look in. And because bad policies are easier to introduce than to remove, the consequences will be there for years to come.

As commodity markets enter a new phase, avoiding such mistakes, and reversing them when they are made, is more important than ever. With Australia's future at stake, ordinary Australians have every right to be involved, even if Garnaut believes the resulting debate looks foolish compared with that in Europe. Well, if that is foolishness, long may it continue. For only it stands between us and the errors the Garnauts of this world would inflict.
