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Where mining's a pariah, thoroughbreds take precedence

HENRY ERGAS THE AUSTRALIAN NOVEMBER 03, 2014 12:00AM

THE Ruler of Dubai can sleep easy. No such luck, however, for 500 workers at a Muswellbrook coalmine. In a recent decision, NSW's Planning Assessment Commission rejected Anglo American's proposal to extend the mine's life because it might harm the Ruler's Darley thoroughbred stud and the Coolmore stud, located nearby.

Not that Anglo's proposal breaches any environmental standard. On the contrary, the commission accepts "the proposal is likely to meet the relevant regulatory criteria". It also accepts the proposal has significant economic benefits and at a time when mining is struggling, it recognises its decision means workers at the mine will lose their jobs.

But none of that gets in the commission's way. "There is insufficient evidence" it says, "to conclude that meeting the criteria would not negatively impact on … Coolmore and Darley".

Complying with the rules is not enough. Nor is demonstrating that the social benefits from a mine exceed its social costs. The mine's proponents must also show it will create no risk of harm.

On that test, which requires proving the unprovable, it is merely a matter of time before coalmining in NSW disappears.

Unfortunately, with the NSW Land and Environment Court relying on a similar test to reject an extension application from the Warkworth coalmine, the commission's decision is not an aberration. The NSW Supreme Court, which let anti-coal activist Jonathan Moylan off with a slap on the wrist for defrauding investors in Whitehaven Coal, has made the situation crystal clear: in NSW, mining is a pariah.

Those decisions aren't taken in a vacuum. They reflect a climate of opinion which downplays mining's contribution to our prosperity and, like the Planning Assessment Commission, assumes it makes little difference if coal remains in the ground. Nor is it only rabid greens who hold that view; it has received powerful endorsements, with few being more effective than Reserve Bank board member John Edwards.

Edwards' Lowy Institute book, Beyond the Boom, received a rapturous reception when it was released last June, securing star billing on ABC news, 7.30 and Lateline, as well as on Radio National. Edwards' contention that the resource boom "only" contributed 3 per cent to Australia's GDP was touted repeatedly as putting mining firmly back in its place.

Sometimes there is nothing wrong with judging a book by its admirers: it may have deserved them. In this case, the ABC's adulation merely confirmed what any careful reader would have known: Edwards' claims don't ring true.

Now Adelaide University professor Jonathan Pincus, former economic adviser to the Productivity Commission, has demolished the reasoning on which they are based. In a background paper issued today by the Minerals Council of Australia, Pincus forensically uncovers glaring errors in Edwards' analysis.

In essence, Edwards only considered the gains to the miners and their suppliers, as well as to governments through increased tax receipts. But higher minerals prices also drove up our exchange rate, with the Australian dollar going from as little as US50c to parity. That reduced the miners' Australian dollar income (as their US dollar earnings were worth less in domestic currency) but made consumers of imports better off.

The higher exchange rate thus redistributed the benefit of increased export prices from miners to the wider community. Edwards ignored that wider gain; adding it back more than doubles the boom's estimated contribution to Australian incomes.

Even that, however, understates the boom's impact, which is best captured by the Australian Bureau of Statistics' measure of the "trading gain" from the improvement in our terms of trade. That measure takes account of rises in export prices and reductions in import prices; over the decade to 2011-12, those changes increased national income by a staggering 14 per cent.

Edwards dismisses the ABS results by claiming imports didn't rise, so any benefit from lower import prices was purely "hypothetical". This is analytically confused and factually incorrect. As Pincus shows, Edwards got his numbers wrong. Far from staying constant, the volume of imports rose 70 per cent faster than GDP: and what households didn't spend from their higher real incomes, they saved, increasing the nation's wealth.

Little wonder the ABS estimates line up closely with the Reserve Bank's modelling, which finds an income boost of 13 per cent. In short, Edwards underestimated the gains from the mining boom by a factor of four.

Whether the ABC, having misled the public, will give Pincus's results equal prominence is doubtful. What is certain is that as the boom fades, we face an enormous adjustment challenge.

Comparing it to the challenge Australia faced in the early 1950s, Pincus notes the economy's "remarkably smooth adjustment to the collapse of the wool price was due, in large part, to price and wage flexibility", but "Australia's current industrial relations regime does not facilitate or even permit such flexibility"; and while adjustment then was assisted by a fiscal consolidation which "improved the 'bottom line' by 2.5 per cent of GDP", the government is struggling "to pass a budget that leaves the bottom line almost unaffected, let alone slows projected government spending".

The onslaught against coal only aggravates those difficulties, reducing investor confidence and weakening our resource industries. Tony Abbott understands that, emphasising last week that his government was determined to stop the demonisation of mining; and so does Campbell Newman, who has stripped away red tape that crippled resource development.

But Mike Baird must get it too. With Pincus setting the record straight, he has no excuse for favouring sheiks over common sense.

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