

The Australian

We can't afford to opt for NBN without scrutiny

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- From: **The Australian**
- October 29, 2010 12:00AM

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GRAEME Samuel's convoluted stance on cost-benefit analysis undermines transparency.

THE trouble with life, Dorothy Parker observed, is not that it's one damn thing after another: it's that it is one damn thing over and over again. So it is with the National Broadband Network; frankly, I am heartily sick of it. But perseverance is required.

After all, once the resources are spent, they are gone forever: no chance then of ensuring that they are put to good use. That is why the project should be carefully assessed before it is irreversibly committed. But there is an even more important reason for persevering: in public life, rot spreads. What begins with half-truths ends with untruths. As the attempt to defend the indefensible overwhelms the duty to say it as it is, a culture of hypocrisy takes hold in which anything goes.

"The result of that substitution of lies for factual truth," said the great philosopher Hannah Arendt, "is not that the lies will be accepted as truth . . . but that the sense by which we take our bearings in the real world . . . is destroyed". Losing its moorings, politics degenerates into "shifting and shuffling in utter sterility".

Consider then Julia Gillard speaking about the NBN on October 20. It would, she said, "boost [gross domestic product] by up to 6 per cent in the next 10 years". Later that day, she repeated that claim, sourcing it to an Access Economics study produced for IBM.

But the report she cites says no such thing. All Access argues is that a ubiquitous high speed network would increase productivity by about 1 per cent.

And it gets that 1 per cent by assuming that absent that network, all present users, business and residential, would be forced back on to dial-up: as extreme an assumption as one could make.

Moreover, to get even that 1 per cent, the Access report ignores recent studies that find productivity impacts far smaller than that.

Gillard, of course, is no economist. And she has better things to do than read economic studies. But her advisers know what they are doing. So why do they do it? Because they believe getting the NBN up is so important that the facts no longer matter.

Consider now Graeme Samuel, chairman of the Australian Competition and Consumer Commission. Ten days ago, this paper reported Samuel as saying no cost-benefit analysis should be undertaken of the NBN.

Since then, Samuel has contested that report, saying: "I did not say that a cost-benefit analysis is not needed. What I did not then go on to say is that one was needed."

What that means is unclear. But what is perfectly clear is that Samuel was widely cited on the ABC and elsewhere as describing a cost-benefit analysis for the NBN as "almost useless".

He has been extensively interviewed since but, as best one can tell, has not contradicted those reports.

And what is also perfectly clear is that last week Samuel tabled, as evidence in support of his stance, a document in the

Senate estimates committee on cost-benefit analysis of the NBN.

Most of that document is completely uncontentious. What is important, however, is its punchline: "If the magnitude or sign of net social benefits changes significantly when different assumptions are used, then the findings of a [social cost-benefit analysis] will be treated with scepticism."

This statement too is ambiguous: is "will be treated with scepticism" a statement about how things are or about how things should be? The most reasonable interpretation is this: if changing the assumptions about future costs and demands converts a good project into a lemon, the cost-benefit analysis should be given little weight.

There is an obvious logical difficulty here. Unless a full cost-benefit analysis of the NBN is done, Samuel cannot know whether its results are especially sensitive to the underlying assumptions. (In a paper published by the Productivity Commission, Alex Robson and I show that they are not.) But there are far greater problems than that with Samuel's statement.

The first is that it is simply wrong. A key purpose of cost-benefit analysis is to ensure decision-makers and the public know just how risky a project is. The change in a project's net benefits when the assumptions change helps identify, clarify and quantify the project's risks.

If plausible changes in cost and demand projections result in the project being unviable, it is the project that should be "treated with scepticism", not the usefulness of cost-benefit analysis.

The larger and more complex the project, the more important it is to know and disclose just how risky its claimed net benefits are before rushing ahead. That the chairman of the ACCC would believe otherwise is extraordinary.

But Samuel's statement is extraordinary for another reason too. The document he tabled is largely drawn, without attribution, from a report the ACCC issued earlier this year.

"Largely drawn" because one crucial phrase is not: the phrase about cost-benefit analysis being "treated with scepticism".

In fact, that phrase contradicts the full report. That report frankly acknowledges the difficulties involved in cost-benefit analysis of large-scale, complex projects. But it also explains ways of dealing with those difficulties and concludes that cost-benefit analysis is an important, widely accepted tool that forms part of best practice policy evaluation and that, far from being "treated with scepticism", is "particularly suitable where the policy being evaluated has large indirect effects" (as is claimed for the NBN).

There is, in other words, nothing in the report that dismisses cost-benefit analysis of large, complex projects, much less suggests it should not be carried out. Samuel's conclusion is therefore at odds with his own agency's comprehensive assessment.

It is difficult to believe that knowing that would not be of great relevance to the Senate committee's consideration of Samuel's document.

And with all respect to Samuel, it is not unreasonable to suggest he should have alerted the Senate committee to that full report.

But he didn't.

Let me be clear: I have no doubt Gillard and Samuel genuinely believe the NBN is a good idea. They have said so on many occasions. And they may be right. But we cannot know that without rigorous, independent and transparent testing. As the full ACCC report cogently puts it "without evidence gained by research and evaluation programs, government relies on theory, or on some mixture of intuition, ideology, and 'gut feelings' in its policy making."

That reliance on sound evidence and disciplined, quantitative testing is all the more important because it is our money that is at stake: money taxpayers have worked hard to earn and for which they have other uses. We have a right to expect decisions about that money to be taken on the basis of the highest standards of stewardship, rigour and disclosure. And

every bit as important, we have a right to be told facts, not half-truths, errors and fictions.

It is that right that is being trampled on. And that is the real price of the NBN. For so long as that happens, this debate should not be allowed to end.

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