

Ms Lindy Hyam  
General Manager  
Singleton Council  
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Dear Ms Hyam,

Economists at Large would like to make a brief submission on the Development Application for temporary accommodation facilities proposed by the MAC Services Group.

Economists at Large is like “economists without borders”. We are a network of economists who advise NGOs, community and environment groups on economic assessment. We have considerable experience in environmental economics and economic assessment of coal projects in NSW.

Our concerns relate to the economic assessment of the development, by the Western Research Institute (WRI, 2013). This assessment is based on an input-output (IO) model used to estimate the economic impact of the project. Such models invariably overstate the positive impacts of a project and ignore the project’s impacts on some industries, the environment and social issues. They assess changes in output, without considering changes in welfare. In other words, this model asks if the project makes us busier, without asking if it makes us better off.

The economic assessment of the project should have been based on cost benefit analysis, which does consider what the net effect of a project is on the community. The NSW Treasury confirms these interpretations:

*Model based economic impact assessment is not a substitute for a thorough economic analysis of a policy. The appropriate method for analysing policy alternatives is benefit cost analysis (BCA). BCA considers the best use of resources and as such treats labour inputs as a cost. An IO based economic impact analysis is best seen as a complement to a BCA and does not provide evaluative guidance. An IO model will estimate flow on impacts irrespective of the qualities of the policy triggering those impacts. (NSW Treasury 2009, p4)*

A proper cost benefit analysis of the proposal needs to be conducted before decision makers can ascertain if the project represents an economic benefit for the Singleton area. Cost benefit analyses need not be expensive or difficult to undertake and it is unclear why the proponents have used analysis contrary to the guidelines of the NSW Treasury.

The use of IO models was criticised by the NSW Land and Environment Court in April this year. Chief Judge Preston overturned approval of the Warkworth Extension project, partly due to the overstatement of benefits calculated by IO models:

*The IO analysis is not a substitute for the decision-making process that the approval authority must undertake in determining the project application, and the conclusions the IO analysis reaches cannot be substituted for the fact finding, weighting and balancing of all of the relevant environmental, social and economic matters required to be considered by the approval authority. The conclusions the IO analysis reaches on the economic benefits of approving the Project, evaluated for their reliability and given appropriate weight, need to be balanced against all other environmental, social and economic benefits and costs. (Preston, 2013)(para 463)*

IO models exaggerate the positive impacts of a project, as they make assumptions that are well removed from reality, such as the existence of a limitless pool of labour and the idea that prices will not change. As the Australian Bureau of Statistics (ABS) puts it:

***Lack of supply-side constraints:*** *The most significant limitation of [IO models] is the implicit assumption that the economy has no supply-side constraints. That is, it is assumed that extra output can be produced in one area without taking resources away from other activities, thus overstating economic impacts. The actual impact is likely to be dependent on the extent to which the economy is operating at or near capacity.*

***Fixed prices:*** *Constraints on the availability of inputs, such as skilled labour, require prices to act as a rationing device. In assessments using multipliers, where factors of production are assumed to be limitless, this rationing response is assumed not to occur. Prices are assumed to be unaffected by policy and any crowding out effects are not captured. (ABS, 2011)*

WRI has attempted to overcome some of these shortcomings through modifications in its SIRE model, outlined in appendix 2. However, there is a lack of transparency around these modifications and the data on which the model is based. This is important as the ABS has noted:

*Production of multipliers was discontinued with the 2001–02 issue for several reasons. There was considerable debate in the user community as to their suitability for the purposes to which they were most commonly applied, that is, to produce measures of the size and impact of a particular project to support bids for industry assistance of various forms. (ABS, 2011)*

As a result, many IO models use multipliers that are many years out of date. This was another criticism of the Warkworth IO analysis which was based on 2001 data. Here Preston CJ is commenting regarding the links between mining and transport, but the same applies for all industries:

*I am not persuaded that it is appropriate to accept the conclusions drawn in the IO analysis as to the quantum of economic benefit derived in the form of economic output and jobs created in the Hunter region. ... it cannot be assumed that the absolute amount of employment in coal mining and*

*transport, and the relative level of employment between coal mining and transport, will remain stable at 2001 levels. (Preston, 2013)(para 459)*

In summary, we believe the economic impact assessment overstates the case for the development, ignoring its many negative aspects. Because of the problems inherent in this type of economic modelling, it is not suitable for decision making purposes, as emphasised by NSW Treasury, the ABS and the NSW Land and Environment Court. We urge council to reject this application until transparent and robust cost benefit analysis is carried out that can demonstrate a net benefit to the Singleton community.

Sincerely,

Rod Campbell  
Marc Fegredo

Economists at Large

## References:

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