

Supplementary evidence to the Senate Economics Committee on FuelWatch

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August 18, 2008

1 Introduction

As foreshadowed at the end of my testimony to the Senate economics committee on 7 August, this paper provides a written comment on the ACCC evidence and Professor Gan's evidence presented at the Melbourne hearings on 7 August.

My comments are structured as follows. Section 2 deals with the issue of expertise raised by Dr King. Section 3 deals with what was absent from the ACCC submission. Section 4 deals with Mr Samuel's evidence and Senator Cameron's questions regarding the use of 'Fool' in the title of my two papers. Section 5 deals with The ACCC and Professor Gan's evidence regarding availability of the data. Section 6 deals with the denial of natural justice that arose because the ACCC was allowed to "verbal" me in their submission. Section 7 updates my discussion of why the FuelWatch case is important.

2 Expertise

Dr King (E6) claims that

Professor Harding, if I can say, violates what I would call the first law of statistical inference, or the first law of econometrics, in his second submission in that he picks and chooses his data.

A serious crime indeed, if it existed. But, Dr King's "first law of econometrics" is pure fiction. A search of econometrics or statistics books will reveal there is no such law of econometrics either under the fanciful name given by Dr King or matching the description given by Dr King.

Although econometrics does not have laws there are some principles that guide good econometric work. One of these is parsimony, that is the principle of explaining a lot with a little. Another is not to confuse correlation with causation. As is explained in my papers these considerations determined my choice of Sydney as the city to use as the reference point. To do otherwise would mean that I would need to either

1. control for the unusual price changes that occurred in the other eastern capitals in the period up to mid 2000 something that would violate parsimony and make the paper longer. Or
2. I could leave these effects uncontrolled for and thus confuse correlation with causation which is what the ACCC did in its econometric work.

Dr King can perhaps be forgiven these flights of fancy because he has no research or teaching expertise in econometrics or statistics. The annual reports of the Department of Economics at the University of Melbourne show that Dr King has never taught a course in statistics or econometrics.¹ Moreover, inspection of Dr King's published articles shows that not one of those articles contains substantive econometric analysis let alone time series econometrics.² Despite the knowledge gap evident in this record, Dr King has implied in his answers to the senate economics (estimates) hearings and in the FuelWatch hearings (E10) that he sufficient knowledge to discuss such aspects of time series econometrics as the choice of endogenous breakpoints and to criticize my econometric work. Those who were trained in the 'official family'. will know that the only correct answer for Dr King to give in such a situation was

"I don't have sufficient information/knowledge to answer that question".

This issue is central to the issue of evidence-based-policy making where I observe about those giving evidence at public inquiries

The third category is the manager's manager. Such people may or may not have expertise as defined by Heisenberg but they definitely are not experts because they have little direct knowledge of what was done or how what was done was supervised. It is usually the managers manager or some person even further removed from direct experience with what was done who gives the evidence at bureaucratic inquiries. Because they are so removed from what was done the testimony of such people is largely useless in evaluating whether the process under study was capable of turning information into robust and tested evidence.

I am grateful to Dr King for illustrating my point with such flair in his testimony.

In response to a question from Senator Cameron Dr King says

¹See <http://www.economics.unimelb.edu.au/SITE/research/annrep.shtml>

²I have provided the committee with a pdf file of the titles and abstracts of all of Dr King's publications that are listed on *Thompson ISI Web of Science*. The committee can check these if they wish. My view is that there is no need for the committee to publish this material after they have satisfied themselves that what I say is correct but ultimately the issue of publication rests with the committee.

I do not believe that Professor Harding has done previous work looking at petrol markets. Essentially the field of analysis, if I can break economics up into two parts, is microeconomics, which deals with specific markets such as petrol markets. That is my own area of expertise, it is Professor Gans's area of expertise and it is Professor Wang's area of expertise. Professor Harding has his expertise, as I understand it, in the area of macroeconomics, which is the study of broad economy-wide issues, such as inflation and unemployment. I have not looked at Professor Harding's curriculum vitae to check that he has not done similar work in the past.

By way of background let me observe that Stephen King was doing his honours year at ANU in the early 1980s while I was a masters student. I can recall talking to him on several occasions while waiting for lectures where we discussed the applied microeconomics that I was doing at the then Industry Commission. Later we were colleagues in the Department of economics at Melbourne and I can recall remarking to him how based on my experience I viewed economics as a single field of study and the macro/micro distinction as unhelpful - pointing out that I had worked in both areas and that economists used similar tools in both areas. Against that background it is an extraordinary, and difficult to explain, lapse of memory on his part to claim that I have no experience or expertise in applied microeconomics. A simple check of my web page at the University of Melbourne (which is still available at <http://www.economics.unimelb.edu.au/dharding/DonWebpage.htm>) would have corrected most of his errors.

Dr King's assertion that I have never worked on petrol markets is equally false and another strange lapse in his memory. In March 2001 I wrote a paper using the consumer sentiment survey to analyse the effects of petrol prices on retail sales. A copy of that paper is attached as appendix A. That survey of 1400 households reported on modes of transport, fuel usage, prices paid at the bowser in March 2000 and March 2001 and how households were funding the increase in petrol prices. The results were presented at Melbourne Institute Business Economic Forums in Sydney and Melbourne and the Public economic forum in Canberra. This paper is available at my old University of Melbourne website <http://www.economics.unimelb.edu.au/dharding/SurveyBasedMacro.htm>. It is a considerable oversight on the part of Dr King to fail to mention this paper which is listed on my CV.

This brings me to what is the least excusable part of Dr King's testimony. After verballing me in a way that would make even the Queensland police of the 1970s blush Dr King breezily says that he hasn't read my CV to see whether any of the things he said are true. I suggest that a Commissioner of the ACCC who regularly deals with evidence should be expected to meet a higher standard of public behavior than this.

Robust questioning that leads to the testing of evidence is central to evidence-based-policy making. But verballing of witnesses detracts from the testing of evidence indeed I suggest that it is a device that was used by the ACCC in this inquiry with two purposes. The first was to distract attention from discussion of the evidence. The second is to attempt to punish those witnesses such as myself who are independent and thus couldn't have their evidence questioned on other grounds.

3 The dog that didn't bark

Gregory (Scotland Yard detective): "Is there any other point to which you would wish to draw my attention?"

Holmes: "To the curious incident of the dog in the night-time."

Gregory: "The dog did nothing in the night-time."

Holmes: "That was the curious incident."

Source: "Silver Blaze", Short story by Sir Arthur Conan Doyle

Sherlock Holmes' dog that didn't bark is often cited in information economics to make the point that what might have happened but didn't happen often reveals the crucial information.

In the ACCC evidence there is not just one dog that didn't bark there are enough non barking dogs to fill the cast of 101 Dalmations. Let me explain.

The **first dog not to bark** is the absence of any econometrician from academia, private sector consultants or government willing to present evidence to the Senate economics inquiry that my econometrics was flawed. The ACCC has about 600 staff and a substantial consultancy budget, there are many academic econometricians willing to earn a consultancy dollar and there are several consultancy firms with reasonable econometric skills who could do the job. The absence of any takers is revealing. It confirms that my analysis is robust.

The **second dog that didn't bark** is that not once during their testimony did the ACCC raise a substantiative issue about my analysis. This is particularly revealing since if there were huge errors in my work the ACCC could have easily pointed to them. Instead they simply verballled me with statements that I have demonstrated not to be true. Nonetheless because there will inevitably be publication lags, the ACCC lies about me will publicly available for some time before my response is made available on the Senate web page. These are practices that were aberrant in the Queensland of the 1970s they do not belong in the Australia of 2008.

The **third dog that didn't bark** relates to the Treasury testimony. Each time I sent a paper to the ACCC I also sent a copy to the relevant Deputy Secretaries in Treasury and PM&C asking them to feed the material into government and inviting them to correct any errors or omissions in the analysis.

These are departments with stronger economic and econometric expertise than the ACCC. I received no indication from either of these departments that there were errors or omissions in my analysis. The Treasury evidence to the Senate economics committee doesn't point to any errors in my analysis.

The **fourth dog that didn't bark** relates to the data. My digitized data from chart S1 is freely available and I have described the method through which the data can be digitized from chart S1 in the ACCC report — a public document. No breach of confidentiality has occurred with publication because it is not possible to use that data to obtain any of the following confidential data:

1. The InformedSources data;
2. The Mogas95 data supplied by Platts;
3. The tax data; or
4. The fuel quality premiums set by refineries.

Given that no breach of confidentiality has occurred with my publication of the digitized data it is clear that confidentiality provisions do not preclude the ACCC from releasing the data they used in their econometric work. The inference I draw from this is that the ACCC are aware that my criticisms of their econometrics have force and, they are aware that if they choose to release the data, then independent analysis of their work on that data will illustrate its manifest flaws.

The **fifth and final dog that didn't bark** is the fact that the ACCC chose not to make a written submission. Given that the ACCC contends that my two FoolWatch papers are filled with errors the most efficient way of establishing that would be to provide a document setting out my errors. Such evidence would be convincing. Instead they chose to present verbal evidence. Why? Well a written submission by the ACCC repeating the things that Dr King said would face some difficulties in getting through the system. First, it is most likely that a written submission would need to be seen by the Treasury and the office of one of the Treasury ministers. Given that I previously worked in Treasury it is likely that someone there familiar with my career might have pointed out that

1. Dr King provided no evidence to back up his statements; and
2. Their knowledge of my experience suggested that Dr King's statements were false.

Second, point 11 of the Senate document *Procedures to be observed by Senate Committees for the protection of witnesses* reads as follows

11. Where a committee has reason to believe that evidence about to be given may reflect adversely on a person, the committee shall give consideration to hearing that evidence in private session.

And point 12 of that document reads

12. Where a witness gives evidence reflecting adversely on a person and the committee is not satisfied that evidence is relevant to the committee's inquiry, the committee shall give consideration to expunging that evidence from the transcript of evidence, and to forbidding the publication of that evidence.

These rules mean that it is much more difficult to 'verbal' someone in a written submission to the Senate than it is in an oral submission. I suggest that this is the reason that the ACCC chose to make an oral submission.

4 Interchanging vowels with a sense of humour is not yet a crime

The title of my paper interchanges the vowels "u" and "e" with "oo", "Mr Samuel suggests at (E7) that the title "FoolWatch" somehow suggests that my analysis lacks independence. Senator Cameron makes several similar suggestions in his questions. At one level this is easy to dismiss as it shows how short the ACCC was of anything approaching evidence in its testimony and it shows how desperate were the Senators representing the government to avoid discussing the substantive issues at the hearing.

The real objection of the ACCC and Senator Cameron is that the pun created by this interchange of vowels provides powerful humour that cuts to the heart of the issues with "FuelWatch". The central theme of my initial FoolWatch paper is that by paying undue attention to authority we run the risk of neglecting the evidence. Humour has often been the device through which this advice has often been offered to those in power. A notable example is Hans Christian Andersen's *The Emperor's New Suit* in which two swindlers convince the emperor that a suit made from non-existent cloth is actually made from the finest silk and gold in the land. The emperor could not see the invisible cloth but did not want to admit this as it might show that he was not fit to be emperor. The swindlers "pretended to take the cloth from the loom, and worked about in the air with big scissors, and sewed with needles without thread, and said at last: The emperor's new suit is ready now." The courtiers all say how much they admire the new suit on the emperor. "Nobody wished to let others know he saw nothing, for then he would have been unfit for his office or too stupid. Never emperor's clothes were more admired." Hans Christian Andersen concludes the story with the words

"But he has nothing on at all," said a little child at last. "Good heavens! listen to the voice of an innocent child," said the father, and one whispered to the other what the child had said. "But he has nothing on at all," cried at last the whole people. That made a

deep impression upon the emperor, for it seemed to him that they were right; but he thought to himself, "Now I must bear up to the end." And the chamberlains walked with still greater dignity, as if they carried the train which did not exist.

The reason the ACCC and Senator Cameron representing the government object to the "Fool" in the title of my paper is that like the little boy in Hans Christian Andersen's story it makes it difficult for them to parade in the clothes of evidence-based-policy. And it makes transparent the foolishness of their behavior. It was no crime for Hans Christian Anderson to point this out with humour in 1837 and it is no crime for me to use humour in this way in 2008.

5 Data and replication once again

Replication is fundamental to science. Replication requires the public release of data. The data that I digitized is freely available. The transformed data that used in my second paper is also freely available. As yet only one econometrician has asked me for it and that was for a study of how higher petrol prices have increased the demand for bicycles.

Despite being unwilling to release their data the ACCC have whimpered to the Senate committee that InformedSources have selectively released the data. to me and a couple of other groups but not to Professor Gans. The ACCC and Professor Gans imply that there is something untoward in this and that it somehow casts doubt on my analysis. I find this deeply offensive. I have no influence over InformedSources. All that I can do is analyse the data independently and I have done that. Professor Gans does himself no credit when he impugns the integrity of another academic economists such as myself without providing a shred of evidence.

6 Denial of natural justice

Earlier I referred to the fact that the ACCC chose to make a verbal rather than written statement. Had the ACCC made a written submission then a natural question for Senators and Senate committee secretaries to ask is what parts of the ACCC statement was supported by documentary evidence. Natural justice would require that the Senate hear in private the statements from the ACCC that reflected adversely on me and then provide me with the opportunity to respond. Point 13 of the *Procedures* document says that

13. Where evidence is given which reflects adversely on a person and action of the kind referred to in paragraph (12) is not taken in respect of the evidence, the committee shall provide reasonable opportunity for that person to have access to that evidence and

to respond to that evidence by written submission and appearance before the committee.

In the event I was not provide a proof Hansard of the ACCC evidence until **eight** days after the evidence was presented. This does not constitute a reasonable opportunity to access evidence.

Had the Senate provided me with an early opportunity to respond to the ACCC's evidence then I could have shown that it was false and misleading as I have done in earlier sections of this document. Such falsehoods should have been expunged from the transcript under provision 12 of the Senate procedures. But they have not been expunged and the falsehoods have been allowed to stand something that is a denial of natural justice.

7 Why is this case important?

Complex societies need to use the evidence provided by experts. But there is now well documented evidence that governments often have difficulty in using the evidence provided by experts. These problems are not confined to any single political party or ideology. For example, one only need to mention the issues of children overboard, the AWB Iraq wheat kickbacks, the issue of whether there were weapons of mass destruction (WMD) in Iraq to point out that the previous coalition government had difficulties in this area. Looking internationally the Iraq WMD issue showed that governments of many different political dimensions struggle with assessing expert evidence.

It should be no surprise then that the current Labor government is struggling with how to deal with expert evidence in FuelWatch and other areas - all governments struggle with these issues. What distinguishes governments is how they deal with these issues. For example, Stilgoe Irwin and Jones observe that in relation to BSE

In 1990, the Conservative environment minister John Gummer famously swept aside uncertainties over the safety of beef with the help of his daughter. Seeking to reassure the public, he gave Cordelia a burger made from British Beef, claiming that science showed it to be safe. (She wisely spat out her mouthful, claiming it was too hot.) The chair of the BSE expert advisory committee had previously been bounced into the role of government mouthpiece. In its death throes, the Tory government admitted its mistake. Stephen Dorell and Douglas Hogg told the house of Commons that there was a link between bovine spongiform encephalopathy (BSE) and Creutzfeldt-Jakob disease (CJD).

The case of Trofim Denisovich Lysenko in Soviet Russia provides a bizarre but pertinent example. He claimed to have invented a process called vernalization using humidity and low temperatures could improve wheat yields. In fact

the process that he claimed to have invented was well known and was known not to produce the results that he claimed. Lysenkism was adopted under Stalin and those who brought forward evidence that contradicting the claims of Lysenko were persecuted as "fly-lovers and people haters", biologists and geneticists were characterized as "wreckers" and Soviet agriculture and biological science was setback a generation.

Australia in 2008 is obviously a long way from Soviet Russia in the middle of the last century. But claims made in the media by the current government that those who want to see the evidence on Fuelwatch properly assessed are doing the work of big oil companies is a slander that matches Lysenko's claims that biologists were "fly-lovers and people haters". Such inflated rhetoric can only do damage to the use of scientific evidence in Australian public policy. Given the big issues of climate change, taxation reform and macroeconomic management that Australia faces we simply cannot afford this damage to the use of scientific evidence in public policy.