

MICROECONOMICS AT WORK EXERCISE

EXTERNALITIES, PUBLIC POLICY AND THE ROLE OF THE ECONOMIST

REFERENCES: Warwick McKibbin, ‘The climate of distortion’, *Australian Financial Review*, 18 September 2002, p. 70.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 1, 15.

OVERVIEW

The case of the effect of industrial emissions on the environment is a classic case of *externalities* — which is complicated by the fact that it is a *global* issue (as distinct, for example, from instances where the ‘spillover’ effects of an activity are local, see pp.345–9). The issue has been the subject of international discussion, and some measures were proposed at a conference and embodied in what has become known as the Kyoto Protocol.

One of the issues associated with the Kyoto Protocol is the manner in which the policies contained in it address the environmental problems created. A second is the likely effectiveness of those policies. A third — the subject of this article — is the consequences for individual countries which ratify the Protocol (and, thus, agree to adopt the restrictions and reductions in activities that are implied in it).

A few countries — one of which is Australia — have declined to ratify the Kyoto Protocol on the grounds that the consequences to Australia are too significant.

This article was written by the Professor of Economics that was responsible for a report (released in September 2002) which concluded that Australia was right in not ratifying the Protocol. It addresses some of the issues associated with the role of economists in public policy issues.

QUESTIONS

1. What is the key issue that is the basis on which the McKibbin Report argues against ratification?
2. Does the recommendation against ratification suggest that McKibbin is unconcerned about the issue of climate change?
3. What do you think that McKibbin means when he says that ‘... ideology rather than academic integrity [is driving the] ... debate’?