

TITLE: Garnaut loses the plot

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PUBLICATION: Crikey

PUBLICATION DATE: 29/01/08

Many of Australia's leading academic economists cut their teeth on trade liberalisation. If there is one thing a trade economist loathes, it's rent-seeking, that is, the manipulation by businesses of the regulatory environment to give them an advantage over competitors.

In the climate change policy debate, the greenhouse mafia has for years kept out low-carbon competitors by stopping measures that would allow them to compete on equal terms.

Ross Garnaut, who will report in June to the Rudd Government on its emissions trading system, is a former trade economist now spending a lot of time thinking about how to prevent powerful industries undermining the Government's plans.

Today's AFR reports Gaunaut's musings on how it might be done. He is worried that by setting a series of 10-year interim targets in order to achieve the goal of cutting Australia's total emissions by 60 per cent or more by 2050, this will create a number of pressure points during which big polluters will prevail on the government to ease up.

So he has come up with a radical solution. Let's have one target, a carbon budget aimed at a 60 per cent cut by 2050, locked in and shored up by various devices, and let the market sort out how and when it will cut emissions to get there.

A "carbon central bank", independent of government and therefore not subject to political pressure, would issue permits following an announced trajectory over time, but polluters could bank unused permits for later, or (much more controversially) borrow future permits from the bank if they get caught out. (How the price of future permits would be set Garnaut has not said.)

The theory is good, but what would it mean in practice? We now know that we must begin sharp emissions cuts in the next 5-10 years. Australian industry is now primed for this; even the carbon-intensive industries accept that they soon must change how they do business.

Garnaut's scheme would immediately take the pressure off. Australian business is notoriously myopic – economists write papers trying to understand why – so the temptation to put off doing what must be done would be irresistible if there were no firm interim 2020 target.

Ironically, it fell to the electricity industry, Australia's biggest greenhouse polluter, to remind Professor Garnaut that businesses want certainty. If businesses can put their carbon obligations on the never-never, and the public, now fired up for action, sees that Australia's emissions continue to rise, no government would be safe.

The Prime Minister would be on television soothing us: "I know that, contrary to my promises, Australia's emissions have continued to rise, but don't worry. Businesses know they are going to have to cut their emissions by much more in a decade or so. Trust us."

The idea of a carbon central bank has probably come from Warwick McKibbin whispering in Garnaut's ear. The bank could withdraw or buy back permits if the science shows cuts must be more stringent. So in response to this crisis it will not be our political leaders responding to the demands of the citizenry, but a handful of experts at the bank who will be trusted with the very future of the country.

Climate change is as much an ethical issue as an economic or scientific one, and it would be the ethical judgements of a handful of central bankers that would prevail. Managing the stability of the money economy is a doddle compared to managing the Earth's climate.

Garnaut has acknowledged that what he proposes is inconsistent with the legally-binding interim 2020 targets that will be enshrined in the treaty to follow Kyoto stage 1. In truth, Australia could not be part of the new treaty unless it committed to the interim target along with all other industrialised nations, so what is Garnaut talking about?

And if Australian firms cannot participate in international emissions trading, as they could not under the Garnaut "let the market rule" proposal, where does that leave his claim that his proposal would be more efficient?

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