

The Australia Institute

Research that matters.

TITLE: Why nobody has energy to burn

AUTHOR: Richard Denniss

PUBLICATION: *Australian Financial Review*

PUBLICATION DATE: 17/06/14

LINK: http://www.afr.com/p/opinion/why_nobody_has_energy_to_burn_6Cg2fZ2FAhUOxDinvcuPZN

Australia has one of the lowest levels of energy productivity in the developed world. We use more energy to make a dollar's worth of gross domestic product than the countries we typically compare ourselves to. But while labour productivity, multi-factor productivity and the productivity of our ports elicit interest from our political and business leaders, wasting energy has never rated too highly.

The fact Australia has lots of coal, oil and gas is often used as an excuse for squandering it but as economists and politicians who pride themselves on their economic acumen should know, the fact you have lots of something doesn't mean you should waste it, particularly when it is a finite resource. Obviously, the more we use something, the scarcer it becomes.

Like all scarce resources, fossil fuels have an "opportunity cost". Every tonne of coal we burn is a tonne we can't export to another country. Wasting coal by lighting CBD towers at night and oil by slowly commuting through traffic jams consumes resources that could be used for higher-value purposes.

Like oil and coal, the resources used to extract them have an opportunity cost as well. Even those who believe it is somehow good for the economy to waste natural resources struggle to explain why it's a good idea to divert skilled labour and expensive equipment away from productive activities and towards extracting more fossil fuels than we need.

Of course, fossil fuels are not like most other products. Economists are sanguine about the kinds of products consumers wish to spend their money on, preferring to let individuals decide whether haircuts, jewellery or bottled water are a good idea.

But this indifference about the consumption choices of others does not extend to products which have harmful effects, or negative externalities, on other consumers. Economics 101 tells us that if consuming a product harms others, efficiency is improved by restricting its use. Leaving aside the cluster of business people hand-picked to advise the Prime Minister, virtually all of Australia's leading business people agree with virtually all of the worlds' scientists that burning fossil fuels causes climate change.

Finally, using less energy to produce the same amount of a product saves businesses and consumers money. As Hugh Saddler recently found in a report for the Australia Institute called Power Down, energy efficiency is the largest single contributor to the recent, unexpected, reductions in Australia's electricity demand. It seems consumers did the last thing politicians and regulators expected them to do in response to a fear campaign about the carbon price: they insulated their homes and started turning the lights off in empty rooms.

ABBOTT GOVERNMENT NOT SO KEEN ON ENVIRONMENT

The pursuit of energy efficiency in our homes, on our roads and in our factories has the potential to deliver significant economic and environmental benefits but, bizarrely, it seems it is environmental benefits that are the major barrier to the government's pursuit of the financial benefits.

For example, while Prime Minister Tony Abbott has agreed to talk about energy efficiency at the G20 meeting, he is determined to keep climate change off the agenda.

Similarly, while he was elected on the back of his concern about the impact of rising electricity prices on households, his government recently scrapped the successful Home Energy Saver Scheme.

And despite the alleged "budget emergency", the Abbott government – like its predecessors – refused to even consider scrapping the multibillion-dollar fuel subsidies paid to the mining industry. While ignoring externalities is inefficient, economists refer to the payment of subsidies to polluting industries as "perverse".

Tackling climate change is a complex and multifaceted problem, but increasing energy efficiency isn't. Using less fuel to get to work, less electricity to heat our buildings and less gas to run our factories will deliver lower costs of production, a lower cost of living and greater export competitiveness. But when our politicians care more about symbolism than outcomes, it's probably best not to mention that improving energy efficiency is central to tackling climate change as well.