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Beware green zealots

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Reducing emissions is not a moral play, it is a trade of costs and benefits, argues **Henry Ergas**

A FANATIC, George Santayana famously said, is someone who redoubles his effort when he has forgotten his aim. With July shaping up as climate change policy month, a good dose of fanaticism seems likely to come our way.

Nowhere is the fanatic's touch more apparent than in the confused notion of an emissions reduction budget, the idea that there is a fixed quantum of emissions reduction we should achieve by a given date, with the result that if we reduce a bit less in one area, we will have to reduce by more elsewhere.

Reducing Australia's greenhouse emissions is not a goal in its own right; it is merely a way of trying to deal with the risks of potentially harmful climate change. How much we should devote to that goal depends on the costs and benefits involved. If the costs increase relative to the benefits, only the fanatic redoubles his efforts.

The fallacy involved is manifest in the debate about how trade exposed, emissions-intensive activities should be dealt with. It has become increasingly evident that if Australia, acting unilaterally, imposes a carbon tax on these activities, global emissions will not be reduced. Rather, they will simply shift to other countries, decreasing our welfare (as we have a comparative advantage in those activities) and welfare worldwide. As a result, without an international framework that would prevent emissions flight, putting a carbon tax on trade exposed, emissions-intensive activities serves no useful purpose.

Now, a rational person, faced with that fact, adjusts the target to reflect the greater cost of achieving it. If the target that would have been set in a world where emissions flight could not occur were to reduce emissions by, say, 20 per cent through a period of years, that person, faced with the reality of an emissions flight risk, would discount that target to some lower level.

In contrast the fanatic, acting as if the target had come from God, leaves the target unchanged and, if anything is conceded to the activities that could most readily move elsewhere, inflicts greater punishment on those that have the least scope to escape their clutches.

This response is doubly perverse. To begin with, the economic cost of achieving any given emissions reduction target increases more than proportionately with the severity of the reduction being sought: doubling the target inflicts more than twice the cost. As a result, increasing the extent of the reduction sought from those activities that are least footloose makes the cost of any overall reduction all the greater.

These added costs then are compounded by an increased distortion in resource allocation between the activities that are exempt and the now more heavily taxed ones that are not.

There is an additional, deeper reason the fanatic's response is perverse. The problem of emissions flight merely highlights the absence of an effective and comprehensive regime for reducing greenhouse gas emissions. In the absence of such a regime, abatement in Australia, no matter how great, will have no direct impact on the risk of harmful climate change. The only reason for undertaking that abatement is the possibility that it will assist such a regime to come into place.

However, whether abatement in Australia would have a "demonstration effect" internationally, and if so to what extent, is highly uncertain. Even if such an effect did exist, there is little reason to think the effect will be much greater if we pursue abatement at home with greater intensity.

As a result, a rational decision-maker would give the possibility of such an effect a low weight and one that justified an abatement effort that was, at most, modest.

This is all the more so as increasing the extent of present abatement reduces our ability to respond should an effective international regime not come into place. In that event, if those concerned about climate change are correct, we would have to invest in ways of living that are less vulnerable to unfavourable climatic conditions. Our capacity to undertake those investments without painful reductions in consumption depends on our wealth.

As a result, if there is a likelihood that harmful climate change will nonetheless occur, we should be responding not by reducing our incomes but by increasing them and accumulating precautionary savings. In that scenario, bearing greater abatement costs now will not reduce costs in the future but merely increase the future pain.

The desirability of focusing on raising our capacity to adjust by increasing incomes is made greater by the distribution of the costs and benefits of the various options. At best, pursuing "demonstration effects" makes the world as a whole better off if it succeeds; but if it fails, its only consequence is to make Australians poorer.

In contrast, increasing our wealth so as to increase our capacity to innovate and adjust, should such adjustment be needed, seems highly likely to make Australians better off regardless of the ultimate outcome.

The case for abatement beyond a very modest level, consistent with a low carbon tax, therefore seems economically untenable. Moreover, anything that makes the marginal costs of abating now higher, or the community's willingness to bear those costs now lower, should induce us to reduce our overall abatement effort rather than sticking by some inherently arbitrary target.

Consequently, a heavy burden of proof should be placed on those who advocate ambitious fixed targets to be pursued with the ferocity of latter-day Savonarolas.

Reducing emissions is not an act in a morality play but a decision that has to be made by trading off benefits and sacrifices. Moreover, the community must be given a full opportunity to assess those benefits and sacrifices and decide whether they are worth bearing.

As a result, whatever recommendations are made by the Garnaut review or the Government's green paper must be backed by estimates of those recommendations' costs, and the modelling underpinning those estimates needs to be fully disclosed. If all we get is moralising waffle, the community will legitimately conclude that this particular emperor has no clothes. Should that occur, the Government will have no one to blame but itself when its proposals run into strong and sustained opposition.

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