

The Australian

Opinion

Billions will be wasted painting pork barrel green

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SO it's done. But it's hardly a shining achievement. Even the government's hope is that by the next election most voters will have forgotten it. And who knows, like an unpleasant visit to the dentist, the climate change legislation may fade with time. But it will still be the most expensive dentist's visit in our history.

Not that the government is willing to admit it. That's understandable, for it knows the community is unwilling to make sacrifices for a policy that seems pointless. But even on Treasury's assumptions, the carbon tax will cost a year's national income: that is, \$1 trillion.

If that \$1 trillion saved us from policies that were even worse, it might be worth bearing. But the government is not proposing to scrap the myriad handouts that masquerade as climate change policies: rather, using the proceeds from the tax, it intends to vastly scale them up. And that means we lose twice: first, through the harm the tax causes; and then a second time, by squandering the moneys it collects.

Nowhere is that clearer than with the government's sop to the Greens, the \$10 billion Clean Energy Finance Corporation. The path it will take, of subsidies to renewable energy technologies, is well-trodden, not least by the US government. The recent spectacular failure of Solyndra, a solar manufacturer that received over \$US500 million in US government loans, highlights the waste such programs invariably involve.

For this is spending without any sensible purpose. There is no evidence of under-investment in renewables: rather, global investment in renewable energy has reached record highs, with annual outlays exceeding \$200bn. Indeed, the concern is that too much money is chasing too few ideas, while on the manufacturing side capacity has expanded ahead of demand. Getting into this activity now is as sensible as the Hawke government's Multi-Function Polis, which sought to launch Australia into electronics just as the world market plunged into a profitless glut.

The Multi-Function Polis was laughable. The CEFC, in contrast, is plain irrational. After all, our comparative advantage lies in abundant natural resources, including vast reserves of coal and uranium. Were the CEFC investing in stimulating world use of those resources, it might add to our national wealth. But to appease the Greens, it will stay well away from anything that involves coal or nuclear, and actively promote technologies that replace them. So if it works, taxpayer dollars will have been used to erode, not enhance, the basis of our prosperity.

Luckily, there is no prospect of it working. Rather, study after study finds such schemes fail as surely as the sun rises.

This is first because the people running the operation won't have their own money at stake. True, the government will appoint a board of green-tinged corporate types, along with the usual cronies. But it's not their funds that will be at

risk. And with the government indemnifying them against being sued, as it has the directors of NBN Co, they will face few pressures to take the tough decisions. So when projects go sour, instead of pulling the plug and embarrassing the government that appointed them, they will bury their mistakes, postponing the reckoning to the future.

Yes, some hapless official in Department of Finance will monitor the operation. But he or she is unlikely to have the commercial nous to run a chook raffle, much less the clout to prevent a high-profile board from taking poor decisions. As for the minister, there too all the incentives will be to hide losses as long as possible. For even if it eventually fails, the government is hardly likely to go after the minister responsible: look at the Victorian Economic Development Corporation, which lost millions of dollars under treasurer Rob Jolly's watch. Did he go to jail? Far from it. He is now a consultant on renewable energy.

That is what economists call moral hazard: when decision-makers lack incentives to take proper care. And that moral hazard means there is little chance of CEFC choosing and managing projects wisely. But there is even less chance of its being offered the projects that are really worth funding.

The CEFC, Treasury says, will provide finance on "commercial terms" such that its loans "earn a positive return". But good projects don't need the CEFC to get those terms: they can secure them from venture capitalists. It is the losers, for whom even commercial terms are a great deal, that the CEFC will attract. That is what economists call adverse selection: when good risks and bad risks are offered the same terms, it is the bad risks that come flocking.

Combine those factors and you get a stampede in which taxpayers' interests get trampled. Having enjoyed their international junkets, the suits on the CEFC will hardly reject every proposal put to them. Rather, to justify their existence, they will make some high-profile investments, no matter how dubious.

As for the politicians, they will crave the photo ops from contract signings and factory openings. Since the CEFC's mandate includes helping existing manufacturers convert to "green energy", every constituency can have one, presumably with a billboard advertising the government funding. Ever alert, the rent seekers won't take long to cotton on. And with the CEFC excluded from the Productivity Commission's periodic reviews of the government's package, there will be little to slow the gravy train.

But none of this will come cheaply. Rather, analyses consistently conclude that each dollar spent on this type of government venture simply crowds out one dollar of private investment elsewhere in the economy. But that government dollar both achieves less than the dollar it displaces and costs more, because distorting taxes are needed to raise it. It therefore ends up costing two or more dollars in lost income.

So make that \$20bn wasted on painting the pork barrel green.

But what are a few billion dollars more when you are set to trash a trillion? Pocket money. Pity it's our pockets it will be coming out of.

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