

The Australian

CPRS handouts will cost the country dearly

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IT would be nice to think that Australians have become more altruistic. Yes, we give generously when disaster strikes, as with the Boxing Day tsunami in 2004 or the Black Saturday bushfires in Victoria in February. But we are much richer than we used to be, so parting with the odd dollar involves less sacrifice.

Adding a few dollars to the credit card to buy the sense of feeling good about ourselves comes as naturally as buying fashion accessories that make us feel good about how we look. That is the generosity of narcissists.

A far better indicator of altruism is blood donation, since it hurts and takes time, that scarcest commodity. And it is made anonymously, for the benefit of strangers, with no expectation of repayment or recognition. With 80 per cent of the population requiring blood at some time in their lives this should be one need with which all can identify.

But only 3 per cent of Australians give blood and, if anything, the proportion has declined through the years.

No sign there of greater concern for the welfare of others.

It is no surprise, then, that the government doesn't count on the altruism of the Australian voter in framing policies. Rather, it relies on providing favours to powerful constituencies to buy support.

Nowhere is this clearer than in its proposed emissions trading scheme, with the government strenuously proclaiming that 70 per cent of households will be "more than compensated" for any adverse effects.

Generous compensation also will be provided to business.

Far from the "hard reform" the Prime Minister keeps announcing, what is promised is therefore a painless warm glow.

That promise is, of course, too good to be true. In fact, the compensation, far from offsetting the harm, will add to it.

This flows from some basic properties of taxes on "bads", such as pollution.

In theory, these are the most efficient taxes, for they raise revenue not by distorting market choices but by correcting them.

However, these taxes typically raise a great deal of revenue relative to the change they purport to make. This is because while the tax is collected on every unit, the overall fall in output of the bad is small. In the case of the ETS, each emission requires the purchase of a permit, but each year total emissions fall by only a few per cent.

As a result, how a tax on a bad affects efficiency depends to a large extent on what is done with the revenues. When those revenues are wasted or used to distort markets, society is worse off, even if the harm done by the bad is reduced.

In the proposed ETS, there is the Swiss cheese of payments to polluters, aimed at buying the acquiescence of a business community that, for more than a century, has more than made up in rent-seeking prowess for all it lacks in insight and backbone. These payments will distort economic activity for decades to come. For example, firms that obtain free permits cannot sell them on exit from the industry. This encourages them to continue to operate even if their output could be more

cheaply supplied by others.

The compensation to households is even worse.

Those payments will be income-based, phasing out as income rises. This will increase marginal tax rates that are already high, with the lost compensation meaning that each additional dollar in pre-tax earning could translate into less than 60c of take-home pay.

Combined with the increase in prices relative to wages caused by the ETS itself, the effect will be to reduce the incentive to work. If this departs from self-interest, it is not out of altruism but folly.

How great are the resulting costs? Unfortunately, none of the distortions arising from the compensation package are captured in the published Treasury modelling. As a result, that modelling provides little guidance as to the efficiency effects of the ETS.

This is not to suggest that a pure ETS, pristine in its underlying economic intent, is politically possible. What it does mean is that the comparison to be made is not between a textbook ETS and less perfect alternatives. Rather, it is between an ETS mired in sordid deals and other options that may be better or worse.

Were altruism to break out, goals such as reducing emissions might be achieved without give-aways and concessions. We know tragically little about how to produce some of life's most important goods, such as mutual respect, tolerance and a genuine interest in the welfare of others. Until that secret is unlocked, government interventions will be shaped by rent-seeking and will often impose costs far greater than its benefits.

Business's search for handouts has long been a primary factor in this respect. Environmental fundamentalism adds dangerous impetus to the pressures.

As the ETS shows, our political system, under the guise of public beneficence, panders all too readily to these single-issue voters, while shifting costs around, including on to future generations, in ways that are as opaque and inequitable as they are inefficient.

Against those pressures, there are pitifully few defences. Reasoned, public argument must be one of them, even if it is, in philosopher Isaiah Berlin's phrase, merely a "flickering light". But this has not been a good year for transparency, with the government's report on the Freedom of Information legislation (a report snuck out moments before Christmas, avoiding all public attention) showing an increase in requests refused: quite a contrast to this government's pledge to be the most open administration ever.

Ultimately, it may be that, as philosopher Jurgen Habermas said, "man cannot fail to learn". But the only beacon that shines on human affairs is our own. Where we do not force it to shine, nothing can protect us from the harms that power so readily inflicts. Making that beacon more effective remains as great a challenge as ever.

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