

# The Australian

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## Opinion

### Mr Garnaut, climate policy should be questioned

- by: Henry Ergas
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**ROSS Garnaut has an unusual concept of democracy. The Prime Minister goes to the country promising "there will be no carbon tax under the government I lead". Once in office, she then proposes to implement one, with the added twist of making repeal by a future government prohibitively costly. Yet, according to Garnaut, rejection of the government's proposed legislation would amount to a failure of Australian democracy on a historical scale, indeed to "a corruption of democracy" caused by "distortion of reality and abuse of truth".**

But then again, Garnaut has insights ordinary mortals are denied. Talk about access all areas. For, as he told the the Joint Select Committee on Australia's Clean Energy Future Legislation earlier this week, he was assisted, in his work on the US, "by the top advisers to the President: people who report directly to the President of the United States". And how many of the great unwashed have "joined Jiang Zemin in reciting the Gettysburg Address with the fruit at the end of a meal"?

So it is even more striking that Garnaut accepts that in the US "there will be no carbon price nationwide". As for India, "for quite a while, total emissions will increase". And in China too there will be a "large increase" in emissions, albeit less than without any efforts aimed curbing their growth. Moreover, Garnaut recognises, in reducing global emissions, "there is no chance of success unless all substantial countries do their fair share".

All that, one might have thought, suggests abatement by Australia risks being both futile and costly. And that locking the country into the government's carbon scheme is at best dangerous, at worst reckless. Not so, says Garnaut. Rather, to express that concern is a distortion of reality.

Quite how stating the obvious distorts reality, Garnaut does not explain. Nor does he explain where the risks have been assessed, and shown to be worth bearing, of a scheme whose own proponents boast it would be prohibitively costly to unwind. Not that that worries Garnaut. Rather, he asserts, the government's proposal involves "reasonable economic costs".

As best one can tell, that assertion relies on Treasury's modelling. Yet no scientist would accept that modelling. Not because it is necessarily wrong but because the models and data on which it relies is secret, and hence incapable of being tested.

That is bad enough. But it has also become increasingly clear that Treasury's results depend on assumptions that were not adequately disclosed.

Three such assumptions are at the core of Treasury's recent replies to questions I put to them some time back. A first

relates to the global framework for carbon emissions. Treasury, in its modelling report, assumed there would be a harmonised, global carbon price by 2016. But how was such a price established? After all, prices don't fall from the sky; rather, they emerge from the interaction of demand and supply in markets. And usually that requires some form of trading. So how was that trading going to occur, given that many key countries did not have, and would not have, any form of carbon pricing in place?

To this, it appears, the answer is as clear as mud. "The modelling does not rely on an assumption that there is a perfectly harmonised global emission trading scheme", Treasury says. But, it now admits, it does assume that even in countries such as the US, there is "some mechanism" that "allows individual firms or governments themselves to trade abatement with other countries". What mechanism? No one knows. Where is the legislation that would put such a mechanism in place? No one knows. And what happens to the assessed costs if there is no such mechanism? Again, no one knows. And since the models and data are not public, nor will they, least of all the hoi polloi who will pay the price.

In short, Treasury has assumed away the problem. Indeed, it has done so even more starkly than in its work on Rudd's carbon pollution reduction scheme. Then, the base case (against which the costs of the CPRS were assessed) involved a world without abatement targets. This time, however, the modelling starts from the premise that global abatement efforts are in place, even after the commitment period for Cancun pledges ends. So the costs for Australia are only assessed assuming global abatement will occur and persist.

It gets even better. As I suggested on these pages, and at greater length in a post on the Catallaxy website, the modelling involves an extreme assumption: that for all emissions outside Australia (so 98 per cent of emissions worldwide), merely increasing the carbon price costlessly allows emissions reductions, as carbon-saving innovations rain, like manna from heaven, on to carbon emitting processes.

In the Senate Select Committee on Scrutiny of New Taxes, Treasury claimed otherwise, saying the "marginal abatement cost curves" that effect this miracle were "fully costed". Now it accepts my contention was correct. How big an effect would this have? Likely large, as it implies a greater contraction in emissions-intensive industries than Treasury's results suggest. But can we know for sure? Not without the models and the data.

Finally, Treasury constantly repeats the claim that its modelling shows there would be no adverse impact on employment. But it now admits that in the model it uses, it takes employment five to 10 years to recover from a major shock, such as imposing a carbon tax. And here the price rises substantially each year. So how do we get the result that there is no impact on employment? Treasury waves this question away, saying that because employers will foresee carbon price rises, the impacts of continuing increases will be slight. But if anything, the exact opposite is true: because employers will know the price will rise each year, the immediate effects will be far greater than the present modelling suggests.

Extracting even these concessions has been like pulling teeth. Yet it barely scratches the surface of the problems. No wonder Garnaut would rather no questions were asked. And no wonder he feels more comfortable with Jiang than with the local debate.

But silence isn't what Australian democracy is about. Rather, it is about forcing truth from power, however painful that may be. Long may it stay that way.

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