

# The Australian

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## Saving energy will tie us in green tape

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### **SCHEMES to cut power consumption should not cost more than the benefits they bring.**

IN public policy, bad ideas never die: they go to second editions. The recently released report of the Prime Minister's Task Group on Energy Efficiency is a striking case in point.

Credit where credit is due. The report is well-written, logically presented and thoroughly referenced, virtues no longer common in government documents. But its mistaken premises lead to recommendations that would reduce productivity, cut incomes and tie us up in unending green tape.

Start with the basics. A policy is effective if it does what it sets out to do. It is economically efficient if what it sets out to do is worth doing. The report's premise is that we should reduce our energy consumption; what it fails to show is that reducing energy consumption would make Australians better off.

This is not to deny that there may be climate change benefits to reduced energy use. Some greenhouse gas abatement could be worthwhile. But even were that accepted, it would only be sensible to reduce energy use if that cut emissions at a cost less than the implied or actual price on carbon. And at least for the next few years, that price is likely to be low.

A frontal assault on Australian energy consumption, as envisaged in this report, therefore cannot be justified on climate change grounds. Rather, the report's premise is that consuming energy is a bad thing, with the vice compounded by Australia's relatively high energy consumption per unit of output.

The implication is that our levels of energy use are inefficient. But for this proposition, there is no evidence whatsoever. After all, Australia is endowed with abundant energy resources, such as coking coal, some of which are costly to transport internationally. We are also amply endowed with other resources, including land, whose exploitation involves high energy use. Comparative advantage would therefore result in our energy intensity being well above average for developed economies.

Nor is there any reason for the rate of change in energy intensity to be the same internationally. Rather, it is our factor endowments, one aspect of which is our land use patterns, which should shape our future energy intensity. Indeed, were energy demand to fall, the price of resources such as brown coal would fall with it, causing an off-setting further shift to highly energy-using industries. This could make the disparity between our energy intensity and that of other developed economies even more pronounced over time.

So could the fact that increasing productivity is expensive: it needs concentrated management attention and entails up-front costs. Efficiency requires focusing that effort where it yields the highest return. For a country with our resources, that is unlikely to be in reducing energy intensity.

None of this cuts any mustard with the report. Rather, with energy intensity treated as a problem, the search is on for solutions. The report therefore proposes ramping up many existing measures, from mandatory energy use reporting by larger firms to subsidised energy inspections for small firms and households.

The report claims these measures are effective. But the studies it cites are largely before-after comparisons of energy use,

rather than properly comparing unit costs at sites that received the benefit and those that did not. As a result, they do not even establish the spending is effective, much less efficient.

This is all the more troubling given the report's failure to confront the lessons of experience. Like the mad uncle in the attic, pink batts and green loans are never mentioned.

Yet they surely prove that recipients have little incentive to monitor the quality of claimed energy-saving giveaways, while snake-oil merchants on the supply side have every incentive to exploit taxpayer funding for all it is worth.

That said, the report does recognise the problems associated with the proliferation of energy-saving programs, not least the scope for greatly differing "bang for the buck" across initiatives. It therefore canvasses two options. The first, tucked away in an annexe, is simply a tax on energy, disguised, in somewhat Orwellian double speak, as a "public benefits charge".

The second, favoured in the main report, is a vast new trading scheme, in which credits would be given to firms that cut energy use, with corresponding implied penalties for those that did not. The effects of this trading scheme, though not discussed at any length in the report, are at best uncertain. It is conceivable that the credits could make some industries more profitable, encouraging an expansion in their scale of activity and potentially increasing energy use. But it is also possible for output to fall, as the easiest way to reduce energy consumption can be to cut production.

The report speaks, in vague terms, of using administrative measures to prevent output reductions from occurring. But how could that be done? If yesterday I used 100 units of energy to produce 12 large nails, and tomorrow I produce 13 small nails using only 50, what commissar will have any rational basis for deciding whether my decision was or was not efficient and adjusting my energy credits accordingly?

What is certain is that both proposed schemes would be profoundly distorting with the loss magnified by the fact that they tax an intermediate input, energy, used throughout the economy. But that doesn't mean they wouldn't have beneficiaries. They would: the new industry of energy efficiency spruikers, who would earn a comfortable living selling energy reduction projects to businesses, trading in the resulting certificates, and clipping the tax dollar as it is shuffled around. And winners too would be the middle-class families who indulge in conspicuous consumption of energy-saving gadgets at poorer taxpayers' expense.

These are the new rent-seekers. Their rhetoric is not that of national development, as was that of the old protectionists. Rather, it comes clad in lofty claims about sustainability. But it is no less self-interested, nor is it any less specious: for in itself, reducing energy use is no more desirable than reducing consumption of toilet paper or pavlovas.

Eating people is wrong; using energy is not. Until that is understood, public policy in this area will remain a hopeless muddle.

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