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Subsidised farce on four wheels

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As we hand over the millions to Toyota, will the real hybrid please stand up, asks **Henry Ergas**

THERE are, Lord Rothschild mused as he reflected on Britain's attempts at becoming an international powerhouse of high technology, two ways of going to rack and ruin. The first is wine, women and song; the second is listening to the advice of engineers. Of these, the first may be the more pleasurable, but the second is by far the more certain.

Throwing money at Toyota to build hybrid cars in Australia is precisely the sort of scheme Lord Rothschild's engineers might have conjured. Even they, however, would surely have shuddered at the thought of giving taxpayers' money to a foreign corporation to do what it would have done in any event. But no such qualms seem to have slowed the hand that signed the cheque to Toyota.

Whether Toyota would have gone ahead without public subsidy is controversial. Perhaps it is only fair to assume that they would not have, so that your money and mine is not simply being given as a gift from ``working Australians'' to the worthy widows and orphans who hold Toyota stock. But if so, matters are only worse.

What purpose is served by subsidising Toyota to build hybrids in Australia? If the intention is to promote the use of hybrids, it would make more sense to reduce the tariffs on motor vehicles, and provide a modest voucher redeemable on hybrid vehicles. At least that would be competitively neutral, as against distorting competition in Toyota's favour. But even then, what objective would be served?

There is no sign that Australians are unduly relaxed and comfortable about present petrol prices, and need inducements to select more fuel-efficient cars. The commonwealth already does more than its fair share to provide such inducements by taxing petrol much more heavily than it taxes other forms of energy. (Why that makes sense is, of course, a further mystery.) All of this makes it unlikely that further artificial stimulants are needed to drive fuel-efficiency.

Nor is subsidising the assembly in Australia of hybrid cars a sensible way of meeting the local carbonistas' calls for urgent action on greenhouse.

The best way to achieve reductions in greenhouse gas emissions is to secure them where they can be had at least cost.

That, in fact, is the whole point of introducing an emissions trading scheme, which creates incentives for emissions to be reduced wherever the marginal cost of doing so is lowest. Doubling up by specifically

targeting emissions from vehicles defeats the whole logic of the ETS, and can only result in any economy-wide reductions goal being met at greater cost to the community.

This seems especially true with the subsidies to Toyota. Estimates suggest that replacing a standard vehicle by a hybrid saves between one and two tonnes of emissions a year. That reduction will have been bought at an annual cost well in excess of \$300, which is far higher than any carbon price contemplated between now and 2030.

In short, this is a subsidy in search of a policy. Victorian Premier John Brumby claims to have found one, saying the subsidy (to which he has added Victorian taxpayer dollars, in an as yet undisclosed amount) will add \$150 million a year to Victoria's gross state product.

Brumby's claim, which doubtless made his economic advisers shudder, bears the same relation to economics that astrology bears to astronomy. In an economy that is pushing over-full employment, increased subsidies to assembling cars only diverts resources from more productive uses. In addition, according to recent estimates from the Productivity Commission, "more than \$1 billion is redistributed each year to the automotive industry (a majority of which is foreign owned)". The consequence is that these subsidies will attract further inputs to an industry that is already far from making productive use of scarce resources, magnifying the waste. It would have been better had Rudd and Brumby scattered the dollars on the streets of Melbourne.

So what is this all about? Another day, another (costly) gimmick? Or is the real hybrid not the vehicle, but the Government?

Few governments have as loudly claimed for themselves the mantle of economic conservatism and of commitment to market-oriented reforms. Scarcely a day goes by without Finance Minister Lindsay Tanner reminding us of how committed he is to deregulation and to breaking with the bad old days when governments intervened in ways that usually created rents for producers at the expense of consumers and taxpayers. As for Small Business Minister Craig Emerson, his paeans to the market would bring tears to eyes of the most battle-hardened Chicago economist.

But then reality strikes -- one costly intervention after the other. This is a Government that is far from proving its economic credentials; throwing taxpayers' money away, as this decision seems to, does little to advance that cause.

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