

BEYOND 'WAITING FOR GARNAUT'

Sydney's **Frank Stilwell** is Professor of Political Economy at the University of Sydney, where he has taught since 1971. Frank is the coordinating editor of the *Journal of Australian Political Economy*, which is Australia's leading outlet for alternative economics challenging neo classical economics and neoliberal policies. He has written about Georgist economics in that journal and elsewhere, including eleven books. He is active in the Greens and is the spokesperson for the NSW Greens economics working group.



Samuel Beckett's play 'Waiting for Godot' is about putting faith in someone who never comes. Rather similarly, we've been waiting for Garnaut for much of this year, anticipating the policies recommended by Professor Ross Garnaut's climate change review. Now Garnaut has come: and the report he presented to the Rudd government in September will undoubtedly lead to some policy action. However, though we're no longer 'waiting for Garnaut', are we being asked to have faith in a policy that will never solve the problem?

The centrepiece of the Garnaut proposals is the introduction of an emissions trading system. Creating a market for a restricted number of licences to pollute will be our big step forward. It is pertinent to ask what is being sustained here – our environment or free market capitalism?

Adopting a market-based strategy, such as the emissions trading system recommended by Professor Garnaut, is just one among many possible policy responses. So fundamental questions need to be posed. Why has an emissions trading system been selected from among the various policy possibilities? Can it be expected to drive change in a manner consistent with social justice? Or will business interests and the exercise of corporate power dominate?

CREATING MARKETS FOR POLLUTION

It is not surprising that Ross Garnaut, as an applied neoclassical economist, emphasises the use of a market-based economic policy instrument. A report that he wrote for the Hawke government on the East Asian ascendancy argued that Australia should specialise in environmentally damaging industries because that is our comparative advantage relative to the nations of Asia (Garnaut 1989). It

was not an auspicious beginning for his engagement with environmental issues! Although his thinking has evidently moved on, making an emissions trading policy the centrepiece of the policy response to climate change has similar roots in orthodox neoclassical economic theory.

According to that orthodoxy, if a limit is set on the total volume of allowable carbon emissions and if the restricted number of permits to pollute are traded in the market, then those permits would be acquired by the businesses with the greatest need to pollute and the greatest ability to pay for doing so. The prices of goods and services will then rise to the extent to which the purchase of emissions trading permits adds to their costs of production. Products whose manufacture and supply requires the burning of much fossil fuel then become significantly more expensive. Aluminium products are a case in point, because their manufacture involves the use of enormous amounts of electricity, typically produced in Australia by burning coal. Proponents of emission trading argue that, once such products become more expensive, consumers will switch to buying cheaper, less environmentally degrading products.

The implication of this conventional economic reasoning is that patterns of production and consumption will adjust to changes in market price signals. Technological changes will also create products and processes that use less of the increasingly scarce and non-renewable energy sources and create less pollution. Indeed, the changed market incentives that result from emissions trading are likely to generate some such responses, notwithstanding some elements of inertia in purchasing habits and production technologies. However, there are at least five major problems.

First, there is any array of practical problems with an emissions trading system. Its overall effectiveness will depend upon how strictly the limit on acceptable pollution is defined, how vigorously it is policed, whether the initial allocation of permits gives preferential treatment to existing polluters, and the conditions under which the market operates. All these practical considerations can result in a much a muddier outcome in the real world than idealised

neoclassical theory would suggest. This is confirmed by the experience of emissions trading policies in European nations: the prevailing 'carbon price' turned out to be so low

that no significant amelioration of carbon emissions resulted, requiring that the whole system be re-designed.

A second problem of all pricing systems, such as emissions trading, concerns equity. Access to increasingly expensive environmental resources - even to the requirements for life itself - becomes a matter of ability to pay. This is a disproportionate problem for poor people. The rich pay more too but, because they can better afford to do so, they are less likely to be deterred from continuing their current consumption patterns. The Garnaut Review recognises the regressive character of an emissions trading system and puts the case for compensatory payments to the poor. Whether those payments will be sufficient to deal with equity concerns, while also maintaining the incentives to buy less environmentally damaging products, remains to be seen.

Third, there are concerns about how incentives and ethics interact. Creating markets for the use of

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'environmental goods', like the right to pollute clean air, is deeply problematic in this respect. Do polluters derive legitimacy to continue with environmentally degrading activities because they have paid for permits? 'Selling the environment in order to save it' is a strange principle. It does not recognize that the more fundamental problem associated with capitalism as an expansionary economic system is that the extension of markets created the environmental stresses in the first place.



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Fourth, there is the related concern that setting a 'cap' on the number of tradeable emissions permits creates some perverse effects. As Richard Denniss from The Australia Institute explains, 'emissions trading will impose a 'floor' below which emissions cannot fall as well as a 'cap' above which emissions cannot rise ... If households use less energy and create less pollution, they will simply free up permits to allow other families or industries to increase their own emissions' (Denniss 2008). According to this reasoning, the only way that concerned households or businesses can make a substantial commitment to greenhouse gas abatement is to buy permits and not use them. Since that is unlikely on a large scale, the reduction in emissions will be no more than the very modest official target – probably a 10% reduction by 2020.

Finally, an emissions trading system will give rise to new markets for derivatives. An executive from PriceWaterhouseCoopers recently said to me that his firm expected to be involved as a 'market maker': this means buying and selling tradeable emissions permits, not for direct use but with the aim of making profits and fees through managing the market transactions. He further opined that a futures market in emissions permits would develop. Indeed, Macquarie Bank has already set up a subsidiary for this purpose. This is just what we don't need, of course, at a time when derivatives markets have made such a stunning contribution to the global financial crisis. Should we really link our environmental policies into this speculative maelstrom too?

CARBON TAX PREFERRED

A carbon tax would be preferable to an emissions trading system, albeit still subject to some similar limitations. Like emissions trading, its effect would be to make products whose manufacture involves intensive use of fossil-based energy resources significantly more expensive. If it replaced the existing flat-rate goods and services tax (GST), other goods and services whose provision does not require burning much fossil fuel would become cheaper. Alternatively, if added to the existing

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GST, it would generate additional revenue that could be used for government expenditure on renewable energy development or public transport, for example.

Why would a carbon tax be better than emissions trading? An orthodox economist would say that both can achieve the same outcome. The former sets the price and allows the output to vary, in which case the tax rate can be adjusted until the acceptable level of emissions is attained. The latter sets the permitted level of output (of carbon emissions) and allows the market price to vary. The distributional effect of a carbon tax and emissions trading may also be similar: in both cases rising consumer prices will create more problems for the poor. However, the ethics and the power politics of the two systems are quite different. A carbon tax would apply uniformly to all citizens and businesses, whereas an emissions trading system creates a powerful political lobby with an economic stake in shaping how the market operates.

A few major players – particularly the electricity producers and their biggest industrial customers and suppliers – can be expected to dominate an emissions trading system. The corporate lobbying process is relentless: and the governments has already said it will give exemptions to 'emissions-intensive trade-exposed industries' and compensation payments to large electricity generators. With a carbon tax, on the other hand, the key political economic relationship would be directly between the government and consumers. Adjustments to the rate of carbon tax in the light of experience would be politically contentious, no doubt, but less problematic than having a powerful business lobby directly contesting any attempt to reduce the number of tradeable emissions permits.

Followers of Henry George will understand this sort of reasoning. A carbon tax, like a land tax, charges individuals and businesses for the use of the limited environmental resources. If applied across-the-board, it would discourage inefficient and unsustainable use of those resources. It would not be vulnerable to the same market distortions likely to arise in a highly politicised emissions trading regime shaped by the interests of corporate power.

THE ROLE OF GOVERNMENT

Either an emissions-trading system or a carbon tax will generate public revenue. Therein lies the potential for government to be directly involved in promoting the development of alternative, more ecologically sustainable, technologies. The Rudd government has already signalled its intention to use part of the revenue generated by the sale of emissions permits for this purpose. Solar, wind and geothermal energy technologies could and should contribute a higher share of energy supply, and public expenditure is needed to accelerate this process. However, what is required goes far beyond promoting 'green power'.

Investment in more ecologically sustainable transport technologies is a case in point. It is no good making car use more expensive, for example, unless there are readily available public transport alternatives. The provision of better infrastructure and public transport services is therefore a precondition for lower emissions and less *per capita* fuel consumption.

An effective sustainability policy is also likely to require a stronger regulatory role for the government. Neoclassical economists usually oppose direct regulation of economic activities because they regard it as less sensitive than market incentives to change. Of course, regulation is implied in 'cap and trade' emissions trading anyway, to the extent that the 'cap' (on the total amount of permitted carbon emissions) is set by the government regulator.

However, outright prohibition of particularly environmentally hazardous activities may also be necessary. Having a high energy-efficiency rating could be a condition for permitting particular electrical goods or motor vehicles to be on the market at all. Aluminium could eventually join asbestos and hazardous pesticides on the list of prohibited products. Getting serious about sustainability needs changes to the market rules, rather than allowing the market to rule.

Public ownership also warrants more attention in these circumstances. Of course, it cuts against the grain of the privatisation process that has been such a central theme in the neoliberal transformation of the state in Australia, and in many other nations, during the last quarter century. Nor is it likely to appeal to those Georgists who are sceptical about a bigger role for government. However, taking electricity privatisation as a case in point, we can see why any shift of the electricity retailers from public to private ownership changes the incentive structures. Privately owned energy providers have a direct stake in increasing the demand for their product. Ecological sustainability requires precisely the opposite. We need electricity to be provided by institutions that will encourage their customers to use energy-efficient appliances and develop strategies to reduce electricity consumption. From this perspective, public ownership, if not a pre-requisite for the adoption of more ecologically responsible managerial practices, is more conducive to these progressive possibilities.

GLOBAL RELATIONS

On an international scale yet more dramatic challenges arise, going well beyond the current agenda of the Garnaut Review and the Rudd government's current policy proposals. The problems of uneven development are fundamental to the pursuit of sustainability. Glaring international economic inequalities require that the more advanced industrialised nations take a lead in substantially reducing carbon emissions, as a precondition for gaining the cooperation of poorer countries. The latter are understandably more reluctant to embrace policies that they see as likely to slow their rates of economic growth, unless they see yet more vigorous initiatives from the wealthier nations.

Can Australia lead the way? The nation's capacity to transform itself into an international environmental exemplar is constrained by many factors, not least of which is the economic dependence on mineral exports. Australia is the world's largest coal-exporter. This creates a particularly strong tension between the economic gains from environmentally unsustainable production and the moral imperative to embrace radical reform.

It would not be practical for the Australian coal industry to be closed down in the next few years, but the Rudd government needs to introduce a transitional program if it is

serious about making the structural economic changes that are necessary for ecological sustainability in the longer term. That transitional program would require arrangements for

shifting workers to new, sustainable jobs, and regional policies to address the particular needs of coal-mining areas like the Latrobe valley, the Hunter valley and the Illawarra region. The development of those industrial and

regional policies would indicate a government actively engaged with the challenge of climate change, going beyond the easy options.

Trade policies also need to be re-thought. Neoliberal globalism has emphasised the orthodoxy of unrestricted growth of international trade. The results have often been disappointing for developing nations and unrestricted trade now looks less and less environmentally sustainable. The challenge is both to a dominant economic ideology and to the political economic power of the transnational corporations, the World Trade Organisation, the International Monetary Fund. These institutions are wedded to capitalist economic practices that prioritise profit-seeking over societal and ecological concerns. The free trade policies they promote are prodigiously expensive in terms of energy and other scarce resources.

Bilateral trade agreements are equally problematic because they frequently inhibit the autonomy of national governments, including their ability to implement environmental protection policies. Yet Australia is locked into such agreements, including the free trade agreement with the USA, and other similarly restrictive agreements are currently being negotiated.

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The principle of 'local production for local consumption' needs to be given more emphasis. The neoliberal orthodoxies that have underpinned the push for free trade and the growth of international trade agreements have led to a prodigious use of energy and transport resources in moving products around the world to increase the variety of products available to consumers. The 'global supermarket' rests on factory production and agribusiness activities in low-cost nations and complex networks of long-distance sea, rail, road and air cargo movements. These

arrangements are not sustainable in a world of increased resource scarcity and facing the threat of climate change.

This is not to deny the gains from all forms of trade. Unless people are to be limited to consuming only local products, long-distance transport can sometimes be environmentally justified. Importing pineapples to Tasmania is better than to growing them locally, for example, because the latter option would be highly energy-inefficient. However, as a general rule, introducing energy-efficiency criteria into trading arrangements would generally favour more local production for local consumption. Some consumers are already starting to recognise the advantages, including food freshness, of consuming products that are local in origin. The embrace in government policy of a preference for local rather than global sourcing would indeed signal a significant paradigm shift.

THE POLITICS OF CHANGE

We are not on the 'level playing field' assumed by orthodox economic theorists. It has been dramatically tilted by the problem of climate change, and furrowed with the problems of resource depletion, uneven development and the unsustainable character of current economic production and transportation. These complex problems cannot be adequately resolved by creating markets for licences to pollute nor by 'fine tuning' the price system Garnaut-style.

A more comprehensive policy package for carbon pollution reduction is necessary, breaking with the neoliberal orthodoxy that prioritises market arrangements and the extension of trade. As a society we need to be drawing insights from pioneering economic thinkers like Henry George as well as environmentalists like Herman Daly (1989), Ted Trainer (1996), Sharon Beder (2006) and Clive Hamilton (2007). Charting that radically different direction is the big political economic challenge created by concerns about climate change. It confronts two interrelated constraints – one arising from the vested interests of corporate capital and the other arising from the timidity of government.

The constraint imposed by business interests and organisations is particularly problematic. As Clive Hamilton documented in his book, *Scorcher*, corporate interests in Australia have played a pernicious role in obstructing the development of more ecologically responsible policies. Of course, businesspeople are citizens too, and ultimately just as vulnerable to the problems of climate change and environmental decay. In the short run, however, many of them profit from the very activities that create the environmental problems. That is the sense in which the challenge of sustainability is a class issue.

The constraint imposed by governmental timidity is equally troublesome. The Rudd government is evidently committed to differentiating itself from its environmentally negligent predecessor. Signing the Kyoto protocol immediately on coming into office was a good start. So too is the commitment to introducing a climate change mitigation policy not later than 2010. However, the continuing influence within the ALP of neoliberal economic principles – and Kevin Rudd's own declared preference for a conservative approach to economic issues – bodes ill for the adoption of a more progressive environmental agenda.

The Garnaut report issued in September lets the government partly off the hook anyway. The recommended emissions target reduction of only 10% by 2020 is a crushing disappointment for those concerned with achieving sustainability. It is hard to escape the conclusion that Professor Garnaut is telling the government what it wants to hear – and what it wants to hear is a soft sell that sacrifices substance for saleability.

There are signs of change though. The financial crisis and the looming prospect of recession has led the government to jettison the neoliberal fetish for surplus budgets in favour of a more Keynesian approach to job creation. This needs to be linked to a program for 'green-collar' jobs, as argued in the current issue of the *Journal of Australian Political Economy* (Pearce and Stilwell, 2008). The dual economic and environmental challenges need to be addressed simultaneously.

CONCLUSION

Responding to the challenge of sustainability requires a different mindset and policy stance. A shift from competitive and individualistic to more responsibly co-operative and collectivist behaviours is implied. So too is the embrace of a comprehensive policy package – for industry restructuring and regional development, investment in new technologies using renewable resources, sustainable 'green' jobs, energy-efficient consumption patterns, and new approaches to international trade and development.

Action for sustainability, if it is to embrace social justice, must also challenge neoliberal ideologies and the power of the dominant political and

economic institutions. Emissions-trading is more about sustaining free-market capitalism as an economic system than about sustaining a planet on which we can live in reasonable harmony with nature. Some radical rethinking is needed, moving beyond the tunnel vision of neoclassical economic theory. Different policies will surely be needed as the inadequacies of the government's policy proposals become clear. Sooner or later – preferably sooner – we will need to move beyond Garnaut. Otherwise we may be awaiting a solution that never comes.

Aluminium could eventually join asbestos and hazardous pesticides on the list of prohibited products

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