

Obama takes climate misstep

By Alan Moran – June 27th, 2013

The President is heading down a dubious path

Barack Obama's long-awaited address on climate change has thrown the spotlight back on to an issue that was receding in policy priorities. The US President repeated some of the dubious factoids about the warming in recent decades and receding Arctic ice without noting countervailing points, including that there has been no warming for 16 years and ice in the Antarctic is increasing.

He noted the US was producing more oil and gas (which have lower carbon contents than coal), was examining new nuclear plants and was subsidising windmills and hybrid cars. While claiming the US had reduced its carbon dioxide emissions more than any other country, Obama failed to add the US (like the EU) had seen these emissions fall together with living standards since 2007 and a de-industrialisation trend as energy-intensive smelting departed for locations without a carbon tax.

The President refers to the 2009 Copenhagen climate change meeting as a success in bringing the world's nations to take action to reduce their emissions. He would be in a tiny minority holding this view. Only the EU and Australia are in the camp that is forcing emission reductions with serious money involved; and the EU's \$6 a tonne carbon tax is dwarfed by the \$23 tax Australia has in place.

Applauding regulatory measures that he claimed had brought costless improvements, the President called for new measures including a watered-down version of Australia's renewable energy target: 20 per cent of its consumption (although unlike in Australia it includes hydro, which already supplies 8 per cent of US electricity). The US measures he announced eschewed the carbon price approach, foreshadowing regulatory restraints on coal-fired electricity as well as similar measures to promote energy conservation.

Most economic analysts argue a carbon tax or comprehensive system of tradeable rights to emit carbon dioxide and other greenhouse gases is likely to bring about abatement at lowest cost. A recent edition of the libertarian Cato Institute's *Regulation* magazine had five articles addressing this. A single price as a tax or emerging from a market where all emission rights are allocated and can be traded offers the maximum potential to arrive at the sought-after emission levels most cheaply.

Of course, for this to operate, all emissions must be included. Any leakages will mean the policy is undermined. And the price oscillations in the EU show how difficult it is to achieve a trajectory for emission reductions even within a single political entity that accepts the goal.

Australia's own carbon tax is far removed from such a purist instrument for several reasons.

First, it has had to be hitched to that of the EU, and this is set at a level that will do little to abate emissions to the degree said to be necessary to stem global levels. Second, though it more comprehensively covers carbon dioxide emissions than is the case with the EU tradeable permit system, it leaves out huge chunks of the economy such as farming and inadequately covers oil.

Moreover, our carbon tax is part of a family of measures and this destroys its integrity as an efficient mechanism to bring about abatement at least cost. As well as the carbon tax, which raises \$9 billion this year, we have subsidies, including through the Clean Energy Finance Corporation, amounting to about \$5bn a year. We also have the 20 per cent renewable energy target, scheduled to cost another \$5bn a year by 2020, and we have a vast array of standards, including the six-star requirements for new houses, that also impose costs of billions of dollars a year.

Economists who have offered the Australian government plaudits for opting for the neutrality of a tax have been delinquent in noting the "elegance" is distorted by the other measures that amount to the sort of winner-picking a carbon tax is designed to avoid. Obama's program does not even provide the economic rationalist aspirational cover of the EU and Australian approaches.