

Peak productivity, living standards set for carbon tax sacrifice

[Energy](#) and [Climate Change](#) | [Alan Moran](#)

The Drum 2nd August, 2011



Campaigning by politicians through the power generation regions of the Latrobe Valley and the Hunter have focussed on the effects of a carbon tax on power station jobs. However, the really significant feature of these vulnerable areas is just how few jobs are involved.

Employees displaced as a result of a tax face the tragedy that loss of livelihood would bring in areas with limited alternative prospects. But more important for the rest of the community is the productivity of the facilities in which those people work.

Employment in the electricity and downstream natural gas industries in Australia is around 61,000 people but only 10,000 (17 per cent) of these are in generation. In Victoria, four Latrobe Valley power stations - Loy Yang A, Loy Yang B, Hazelwood and Yallourn - generate almost 90 per cent of supplies. These facilities employ directly and indirectly about 2,900 people. This includes those both mining the coal, which has virtually no use other than for generating power, and running the power stations.

Julia Gillard, in her pitch to the Latrobe Valley workers, commented adversely on the effects of the 1990s privatisation under Jeff Kennett/Alan Stockdale in reducing employment within the Victorian power industry. She said her Government, unlike the Kennett government, would not abandon the workers in the valley in the event of job losses.

In fact most of the job-shedding actually took place in power generation was under the pre-privatisation reforms introduced in the early 1990s by Labor premier Joan Kirner. The Kennett/Stockdale reforms simply built upon that base. Ms Gillard left unsaid that these reforms transformed an industry that was hopelessly unproductive into one of high efficiency. The generators' productivity levels have increased over fivefold since the industry was first corporatised and then privatised.

It is productivity which is the key to income levels. Current Australian productivity levels are the only reason why Australians enjoy higher living standards than people in other resource rich countries like Brazil and South Africa. The average Australian worker produces more than the overseas counterparts partly because of the amount of capital per worker, partly because of the structure of production between industries and partly because of the average worker's skills.

Scrapping a stock of capital, restructuring away from industries of highest productivity potential and eliminating the market for carefully learned skills will lower income levels.

Just how productive are the coal-based electricity generators targeted for closure and how do they compare with the facilities earmarked to replace them?

Victorian baseload brown coal generators in 2009/10 had a turnover of \$1.935 billion. The main input into these businesses is coal, which is produced in-house, and only about 12 per cent of inputs comprise items other than labour and capital.

This places the power stations' gross value added per employee at some \$667,000, which works out at over \$350 per hour.

Recent work by my IPA colleague Julie Novak has estimated gross productivity per hour across major industries. This ranges between \$25 (food and accommodation) and \$250 (mining).

In other words, the Victorian coal-based power stations are among the most productive enterprises in Australia, higher even than the mining activities which have been so significant in raising our average living standards over recent years.

It should be noted that levels of productivity by electricity generators in Queensland and New South Wales are unlikely to reach those of Victoria. This is because those states' generators are mainly government owned and hence are characterised by employment padding, the key reason why the ALP has resisted their privatisation.

Even so, replacing the coal-based electricity facilities with other sources would send the industry's productivity plummeting. On present technologies the cheapest non-fossil fuelled alternative source of power available is wind, the productivity of which is about one quarter that of the coal-based generators. Replacing coal with gas entails a productivity sacrifice of about 40 per cent.

Governments in Australia until recently always pursued policies designed to improve living standards, though sometimes, as in the case of introducing tariff protection, the actual measures were misguided. It is an astonishing policy approach for any government to promote, as a reform, plans that will clearly reduce living standards, and can only conceivably provide pay-offs if the rest of the world also adopts emission reduction policies. Forcing the closure of coal-based electricity generation plants in Victoria, New South Wales and Queensland means sacrificing assets and skills that are among the nations most productive and means lower average living standards.

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