

Carbon tax or trade? It's all academic

[Energy](#) | [Alan Moran](#)

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The clamour for measures to prevent global warming is becoming more insistent. It is fashionable that nature is reflected in John Howard's Australian of the Year committee picking evangelical scientist Tim Flannery.

In England, the Government has awarded itself a tax bonus on air travel in the cause of saving the world from the carbon scourge. In the US, President George Bush's rejoinder to the pressure he is facing to do something about global warming is to start a new "Star Wars" program. This time, instead of missile-seeking lasers, it is sun-reflecting mirrors.

The recent release of the scientific summary of the Intergovernmental Panel on Climate Change update suggests that over the next century temperatures will rise by 1.1 to 6.4 degrees and sea levels will rise 18 to 59 centimetres.

None of the prognostications are as severe as those portrayed in such films as *The Day After Tomorrow* (where ocean current reversals bring on an ice age) or the fabrications that Al Gore fronts in his film, *An Inconvenient Truth*. An enduring image of the Gore documentary is of mass extinctions facing species such as polar bears. In fact this is less likely than the sight of a pink one swigging Bundy rum at a disco. In most of their habitats, their numbers are increasing.

While the IPCC has yet to give its economic estimates of the impact of global warming, the British team under economist Nicholas Stern last year produced *The Economics of Climate Change*. This has been comprehensively rebutted, notably by a group of economists that includes former British chancellor of the exchequer Sir Nigel Lawson and former Organisation for Economic Co-operation and Development luminary David Henderson.

The critics say Stern combined all the most extreme forecasts and some untenable discount rates to somehow prove we would all be better off with a stiff dose of carbon regulation. Trumping all other scenarios, Stern claims inaction could cost up to 33 per cent of world consumption. He argues that technology will come to the rescue as long as a tax at \$130 a tonne of carbon dioxide is in place and we'll lose only 1 per cent a year of world gross domestic product.

Stern, like the Prime Ministerial Task Group on Emissions Trading, favours tradeable rights as the means of control rather than a carbon tax. Carbon trading with credits grandfathered and allocated to existing users benefits companies by providing a subsidy to scrap outdated plant. Commodity traders and companies that have expertise in trading see carbon credits as a new and lucrative product.

Others favour carbon taxes to increase public revenue, even though this is a de facto expropriation of particular energy businesses. Carbon taxes are a graduated levy on energy supplies and the biggest losers are coal-based electricity generators. While both have their merits, neither is more flexible than the other. A tax allows adjustment to price if we are overproducing or underproducing emissions, while a tradeable right automatically brings that price adjustment.

Both are preferable to existing measures, including subsidies for windmills. Once these schemes are phased in, Australians will pay \$1 billion a year.

But the choice of instrument between taxes and allocating rights is only meaningful if there is overwhelming agreement among sovereign states about the need for action. Most emissions increases will come from the developing world and these will only ease once the countries have

reached the developed world's living standard. This means the choice of instrument is academic -- a tax and a tradeable rights allocation will have only a trivial impact on global emissions increases.

We have confronted forecast catastrophes such as global warming in the past. In the 1970s, the Club of Rome assembled a collection of scientists to warn us the world would have run out of most minerals by now and India and other countries would be facing mass starvation.

These and other impending certainties were undermined by empirical evidence. The Club of Rome forecasts confronted a world with abundant raw materials to fuel its massively expanded demands and booming Asian economies.

With global warming, we have claims that are immune from empirical testing. We won't know for at least

50 years if the IPCC forecasts are right. Even if we did not find it difficult to adopt measures that would reduce our emissions, we have no means to impose these on the developing world.

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