

The Carbon tax – short term carrot and long term stick

The carbon tax is short term carrot and long term stick. The politics of ‘a great big new tax’ drove Gillard to introduce a tax which compensates most people and businesses affected to begin with.

Some in fact will be overcompensated, at least in the first years of the scheme. That compensation will prove illusory over time. The package is designed to soften us up for a future attack on our living standards.

Government spin

There is also a fair bit of spin going on. For example the Government is proclaiming this to be a great income tax reform. The tax free threshold will increase from \$6000 to \$18,200.

But that needs unpacking. The Government will reduce the low income tax offset (LITO) from \$1500 to \$445 as part of the package, effectively increasing the tax free threshold for those on LITO from \$16,000 to \$20,542.

The Government will also increase the first marginal tax rate from 15 percent to 19 percent to help pay part of the increase in the tax free threshold. This may act as a disincentive for some people to enter the workforce or to work more hours.

Further, as Brian Toohey in the Australian Financial Review put it, the change in the tax free threshold will ‘...let some high income earners pay less tax by splitting more of their income with a non-working partner.’ (Brian Toohey ‘\$8 billion package hides some true tax benefits’ *The Australian Financial Review* Monday 11 July 2011 p 10.)

Some Treasury figures

Treasury modeling was done on a price of \$20 a tonne of carbon. The announced price is \$23 a tonne, escalating annually by 2.5 percent above inflation. Treasury also used extrapolations from the six year cost of living trends to 2003/2004 as a basis for its modeling. The next six year trend figures are not released till September this year.

Treasury’s own analysis shows that the impact of the scheme on reducing carbon gas emissions by 2050 will be very very small without an international trading system in place. Without abatement sourced from overseas [Treasury’s figures](#) show that the proposed scheme will reduce greenhouse gas emissions by 2% in 2050.

The \$23 a tonne tax on carbon will come into effect on 1 July 2012 and will be imposed on the top 500 polluting companies. That in itself is a back down. The original proposal would have covered the top 1000 polluters.

It will also not apply to petrol for households and small business.

If this is about changing the behaviour of the polluters and consumers why compensate them? The answer might be because the compensation is a short term strategy and will be swamped in later years by carbon price escalation, bracket creep, inflation and the move to more volatile pricing that is an emission trading scheme.

To be effective in changing people's behaviour and making less polluting fossil fuels like gas or renewable energy like solar or wind viable, the price of carbon will have to rise rapidly in future years. That is partly why there is a price escalation clause in the scheme to move it from its low \$23 a tonne to \$25.40 a tonne when the emissions trading scheme replaces the carbon tax in 2015.

The Greens show the price is too low to move to renewables

Both figures are too low to change the behaviour of the big polluters. While the carbon tax is a mini-GST, it is also in theory at least a Pigovian tax. Such taxes are imposed specifically to change behaviour. Think tobacco and alcohol taxes for example.

Yet [the Greens have said](#), based on a Deloitte's report commissioned by Resources Minister Martin Ferguson, Minister for Energy, that a switch from the more polluting fossil fuels like coal to less polluting fossil fuels like gas would only be economically viable if the price on carbon were around \$40 a tonne. For example [Deputy Greens' leader Christine Milne has told ABC radio](#):

I certainly recognise that you are going to need a price at \$40 or more to shift from coal to gas and then a higher price still from gas to the renewables."

The Greens are arguing for a combination of measures ... because even at \$40, it is not a high enough price to bring on renewable energy at large scale.

[Greens Senator Sarah Hanson-Young](#) has put a price on that change – \$100 a tonne. 'If we want to transition right through to renewables it's going to have to be in the vicinity of you know \$100 a tonne but that's of course not on the table.'

The [Treasury figures](#) show that to achieve the target of an 80 percent reduction in greenhouse gas emissions by 2050 the price will need to be \$131 a tonne.

Introducing a carbon price of \$40 a tonne let alone \$100 a tonne would be political suicide. As it is, \$23 a tonne might spell the end of the Gillard Government anyway, although the current compensation package might save Labor in 2013 from a massacre and deliver it just a big defeat instead. Let's see how the politics plays out against a backdrop of working people not spending and fearing job losses and price increases that will eat into their living standards.

What is on the table is a low carbon price plus, as [Christine Milne put it on AM](#) some time ago '...the [price] escalator and ...complementary measures.' That is what has now happened in the carbon tax package with the carbon price escalator, the \$10 billion Clean Energy Finance Corporation funding, the undisclosed cost of shutting down brown coal electricity generators like

Hazelwood and the shift to an Emissions Trading Scheme in 2015 which will have a more drastic impact on consumers than the carbon tax.

That is the long term goal – a mechanism for increasing prices that slowly but methodically impose the burden of pollution for profit on the backs of ordinary working Australians, not the polluters.

The Government and Greens hope the ETS will do that. However as the European experience to date shows, an ETS benefits the finance speculators but doesn't reduce emissions. Just to make the point crystal clear. The people who gave us the global financial crisis are the ones who have profited from the European ETS. Is that what we want in Australia too?

An international trading scheme?

The Government's own estimates (Chart 1.2 on GNI) show that with international trade in permits the carbon tax/ETS package will produce a 2% cut in greenhouse gas emissions by 2050. With an international trading permit scheme the reduction will be 80%.

In other words all the huffing and puffing is dependent on there being somewhat comparable permit schemes in place across the developed world. Good luck with that international consensus building. It won't happen because of the competitive nature of the capitalist system pitching capital against capital within and between nations and because the two super powers the US and China cannot trust each other. They are in an imperialist dance of death for dominance.

Kyoto, Copenhagen and Cancun come to mind.

In addition, the compensation package for individuals will erode over time as inflation moves people into higher income tax brackets and increases the average tax take from their pay. The current compensation package for example is in part paid for by previous bracket creep.

The package will produce a \$4 billion hit to the revenue over the first four years as the compensation and spending associated with it are greater than the revenue raised. It is possible the Government will cut Budget expenditure on hospitals, schools and roads to pay for that shortfall. Working class people will pay for the largess granted to the polluters.

Even if there were miraculously some form of international consensus, Treasury's figures are educated guesswork about the impact, educated guesswork whose validity is possibly being challenged right now by the putative GFC mark II.

Short term thinking and profit dominates

Indeed ever since the first GFC it has become clear that capital and its major political representatives in the developed countries have more or less abandoned effective action on climate change because such action may detract from short term recovery and short term profits. GFC Mark II, if it occurs, would only reinforce that rejection of real action on climate change.

The carbon tax is thus, from the point of view of Gillard Labor, for reasons of political expediency and reflecting the underlying concerns of capital with the immediate rather than the future, an attempt to give the impression of addressing climate change without actually doing so. In fact, the level of the tax is so low that what it will do is, apart from gradually increasing the costs onto the shoulders of working people, lock in fossil fuels in the form of gas fired power stations.

The tax locks in fossil fuels for 60 years

Rather than moving over the next ten years to renewable energy such as solar photovoltaic, solar thermal and wind power, what the carbon tax will do is trap us in a world of gas fired power stations and hence CO₂ emissions.

The tax is not, as many Greens claim, at least a first step to addressing climate change. It is actually a mechanism for locking in fossil fuels – gas – for the next 60 years.

At the Byron Bay Writers' Festival in early August I went to a talk by Matthew Wright, CEO of [Beyond Zero Emissions](#). Matthew made the point that what he called a 'twilight zone' carbon price of between \$30 and \$70 a tonne would entrench gas fired power stations as the main source of our electricity for the next 40 to 60 years.

Why? Because business will only invest in gas if there is certainty of long term returns. The life of the gas fired plant is estimated to be at least 40 years. Explorers and energy generators are not going to invest in gas fired power stations if the return disappears after ten years because of a move to renewables. In that short period the investment may not have even paid for itself.

Is there that certainty of long term returns? According to Matthew gas exploration companies have earmarked 30 percent of Australia for gas and coal seam gas exploration. The carbon pricing mechanism gives the exploration companies and the electricity generator companies that 40 year certainty.

According to Matthew, and viewed over the life cycle of natural gas (including coal seam gas) it releases fifty percent less CO₂ than the next least polluting type of coal.

But to reverse the current headlong gallop to an environmental tipping point we need not just to reduce CO₂ emissions but to stop them. Instead the current carbon tax locks in CO₂ emissions.

Is a renewable energy economy by 2020 feasible? According to Beyond Zero Emissions it is.

It will cost \$37 billion a year to move from fossil fuels to renewables. That is about 3 percent of GDP. It is also about one-third of the revenue foregone – \$113 billion per annum – through tax exemptions and extra deductions we disguise each year through the tax system, a large amount of which goes to business.

Solar thermal and wind power would create 150,000 jobs, according to Beyond Zero Emissions.

Instead of locking in gas fired power stations, let's move to a totally renewable energy Australia by 2020. Despite BZE's faith in the market, subsidies and government spending, that won't happen without a mass movement, a movement that encompasses not only climate change but the other problems of capitalism both economic and political.

Neoliberalism

The carbon tax fits in perfectly with the overall tax philosophy of neoliberalism and the unquestioned rule of the market, exemplified best by the Henry Tax Review whose recommendations were in the main about shifting the tax burden further on to labour and less on to capital, especially mobile capital.

Tax policy itself is part of a wider neoliberal agenda to shift wealth from workers to bosses. As even the [Australian Council of Trade Unions has been forced to recognise](#) the share of national income going to capital is at its highest ever; the share going to labour its lowest since December 1964, which was when records began to be kept.

The carbon tax fits neatly into that agenda, even if sections of the capitalist class oppose it.

The degeneration of the left

It says much about the degeneration of the Left (broadly defined) in Australian politics that most of it welcomes a market mechanism whose specific long term aim is to make workers pay for the environmental crisis of capitalism. The carbon tax and the ETS scheme are neoliberal solutions to a problem that the market itself has created. The market is the problem, not the solution.

A left wing solution within capitalism could involve taxing the polluters specifically and increasing taxes on other businesses, controlling their prices so they don't pass on the costs to consumers, and using the increased tax revenue to build Government owned solar and wind farms as part of a shift to a renewable energy economy by 2020. Any capital strike as a consequence could be met with nationalisations.

Workers were right to distrust the carbon tax before they saw the details. They are right to distrust it now the details are out.

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