Carbon tax an ever-increasing tariff

This is an edited extract of a speech Tim Wilson gave to the Liberal Party's Modest Members group on Wednesday 12th October.

Last Monday, Trade Minister Craig Emerson argued that the introduction of a carbon tax "points to Gillard Labor governing in the Hawke-Keating tradition".

The Hawke-Keating "vibe" that Emerson argues the Gillard government is channelling is that policy changes presently being introduced, including the carbon tax, will provide foundations for a more flexible, dynamic and competitive economy. But the economic benefit of trade liberalisation and floating the dollar cannot be compared with the introduction of a carbon tax.

At its heart, the past three decades of positive economic reform led by the Hawke-Keating and Howard governments removed barriers and distortions in the economy that misallocated economic resources and stopped Australia pursuing its comparative advantage.

Or, in layman's terms, producing things that we can most competitively to reduce costs to households and be internationally competitive.

Importantly, those reforms scrapped the false foundations that tariff and non-tariff trade barriers created for protected industries.

This stands in stark contrast to the carbon tax and its successor emissions trading scheme, which brings back these false foundations back.

A carbon tax is designed to tax out of competitiveness otherwise viable businesses within Australia's comparative advantage, and tax into competitiveness those that are not.

It's precisely why government Treasury modelling assumes so many foreign permits will be traded into Australia's scheme.

Our lack of capacity to cut emissions is not a result of absent enthusiasm. It's not something we are competitive at because our emissions profile is dominated by burning coal for electricity, and the tax price needed to successfully tax it out of competitiveness is absurdly high if we want to keep the lights on.

If the rest of the world had emissions trading Australia would be one of the last developed countries on earth you would try to cost effectively cut emissions because it would always be cheaper to do it elsewhere.

A carbon tax operates as an ever-increasing internal tariff.

A carbon tax acts as false foundations to give lower-carbon industries an artificial boost, which will escalate over time as the tax rate goes up and permits are removed from an ETS, increasing the price of emissions permits.

Trade barriers, such as tariffs, act in the same fashion as a carbon tax, by taxing out of viability imports that compete with otherwise uncompetitive domestic production.

Non-tariff barriers ranging from abused quarantine standards, rules of origin certification requirements and compulsory labelling standards to prompt consumer boycotts have the same effect as tariffs, through a less transparent economic profile.

And the havoc trade barriers caused in distorting the unsustainable allocation of economic resources in the Australian economy from World War II until the start of reforms in the 1970s will be repeated.

The only scenario where an internal carbon tariff won't cause economic harm is if every other major competitor country takes on equivalent self-flagellation.

But that clearly isn't happening. Such proposals aren't even being discussed in the US.

A recent commissioned review panel report recommended that New Zealand engage in liberalisation of its planned phase-in of its scheme.

Only Europe has made equivalent steps in the same direction as Australia, with the massive allocation of free permits – though Europe's emissions reduction has occurred from reduced economic activity from the global financial crisis, exporting industries and jobs offshore to countries without equivalent carbon prices and the purchase of permits from developing countries through international emissions trading.

But the latter isn't looking like a viable ongoing option, with the World Bank recently reporting that the international carbon market is in recession as the world waits for the elusive successor agreement to the Kyoto Protocol to be negotiated.

That's why Japan and South Korea, understandably, are holding off introducing any scheme that acts as an internal carbon tariff.

The only commonality between the Hawke-Keating reforms and Gillard's carbon tax is that through the lifetimes of the government the rates imposed will change.

But unlike Emerson's 1980s employers who gradually phased down the rate of false foundations and misdirection of capital in the economy, the Gillard government is set only to increase them into perpetuity.