

It's About The Economics, Stupid!

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Prime Minister Tony Abbott's visit to Canada has exposed his basic lack of understanding of the economy, writes Ian McAuley.

Tony Abbott shares many things with Canada's Prime Minister Stephen Harper. Both express loyalty to a foreign monarch, both are pushing against the tide on carbon pricing, and both are unpopular among their voters.

Harper's Conservative Party holds office only because of Canada's 'first past the post' voting system, which in the 2011 election split the vote between the two other large parties – the Liberals and the New Democratic Party.

Their claim that strong action on carbon pricing would hurt their economies is either glib spin at the behest of the coal and oil industries or revelation of fundamental ignorance of economics. (The strategy revealed in this year's Commonwealth Budget points to the latter as a compelling explanation in Abbott's case.)

The environment and the economy are not separate. The idea that there is some tradeoff between environmental and economic policy is a false dichotomy.

The overriding concern of both disciplines is the allocation of scarce resources, and the capacity of the atmosphere to absorb greenhouse gases without causing severe damage to our productive systems is a scarce resource.

The normal, conventional way to allocate scarce resources, as every economist from Adam Smith onwards knows, is to make sure they are priced.

Carbon taxes and emission trading schemes both work through the price mechanism, and contrary to Abbott's notion that they are losing popularity, they are being taken up by more and more countries and by sub-national governments.

But, as Abbott so aptly demonstrates, when the facts are inconvenient, just ask a shock-jock journalist to make them up.

Their more basic economics misunderstanding (or misrepresentation) is about the very dynamics of capitalism.

Both leaders seem intent on shoring up an existing economic structure based on extractive industries.

But capitalism thrives on change, and the opportunity for countries like Australia to modernise the energy sector could be a major driver of change.

There are jobs in de-commissioning coal-fired plants, in building solar and wind plants and the accompanying transmission infrastructure, in energy research and development, and in making buildings and industrial plant energy-efficient.

If this isn't economic activity, what is?

Does Abbott think that projects such as the 137 turbine wind farm at Snowtown in South Australia, met with such enthusiasm by the local community, don't involve jobs and investment?

Abbott, it seems, just doesn't understand economics.