"THAT AUSTRALIA SHOULD INTRODUCE A CARBON DIOXIDE EMISSION TAX"

Even if you are a global warming sceptic, it is still difficult to deny that economic pressure on non-renewable natural resources and the environment is the most substantial market failure in the history of the market economy. Therefore, regulation targeting sustainable energy production is inevitable. However, what kind of regulation would better help to achieve the target?

The debate has evolved about the shape and form of the financial inducement – carbon dioxide emission tax (normally shortened to “carbon tax”), to be subsequently replaced with carbon dioxide emissions trading; and the directions and magnitude of compensation required.

There is a view that neither a tax nor an emissions trading scheme might work at all. Imposing a cost on socially or environmentally undesirable consumption is effective only if consumers have a choice - for example, higher taxes on cigarettes might be a good reason to quit smoking. Compared with this example, energy and fuel are necessities with no immediately available substitutes.

When a carbon dioxide emission tax or an emissions trading scheme are introduced, there will not be adequate alternative sources of energy to those based on fossil fuels.

Therefore, consumers will have to absorb the additional cost, while major carbon dioxide emitting industries will have little or no incentive to invest in alternative clean technologies. Meanwhile, the price of such a policy will be lower disposable incomes, lower discretionary spending, and, consequently, an overall slowing of the economy.

Others say that financial inducement might work if unpopular measures of very selective excise taxation are introduced in areas where close substitutes are available.

One possible example is the replacement of a uniform car registration fee with one that increases steeply according to engine capacity. Lower registration fees could also be used to encourage the purchase and development of cars powered by alternatives to internal combustion engines.

Progressive excise taxation, which varies according to power consumed, can also be applied to appliances and other electric devices.

All applications of the excise tax will send a signal to consumers, diverting them to goods consuming less power, and to manufacturers, which will need to meet changing consumer preferences. Importantly, such market signals will be transmitted not just to domestic manufacturers and importers, but also to overseas suppliers.
The proceeds from such excise taxation and the increases in car registration could all be used to fund projects targeting lower energy consumption and the move to cleaner energy.

An alternatively policy has been suggested whereby direct regulation enforces a step-by-step decrease in fossil fuel use. This might force energy generators to invest in clean energy. As with emissions tax or trading, this will make energy more expensive. However, higher energy costs will follow investments in new clean technologies, not precede expected action on behalf of the energy industry.