

Submission relating to the "Low-emissions Economy Issues Paper, August 2017" of the New Zealand Productivity Commission".

Submitter:

David Boyes

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Summary:

Market mechanisms and monetary value assignment do not work and are not a useful measure of quality of life.

We are already at a point where measures should be taken and can be taken. Delays because these measures cannot be implemented by market mechanisms is part of the problem not of the solution.

Detail:

Before addressing several of the questions, there are some general remarks to be made.

An assumption throughout the issues document is that market mechanisms based on such things as monetary cost allocation can make required changes happen. Both in theory and empirically this is implausible. The theory behind this is shaky at best, since in practice this is done by tweaking economic parameters to get the required results. While this approach may or may not work in some cases, here the major effects required are simple enough that they can be addressed directly, and any costs figured out afterwards. In any case, empirically, New Zealand has followed in recent years a rigorous market led approach and this has got use exactly where we are now - pretty much nowhere. To believe that changes in market parameters can move a whole economy in the opposite direction is close to voodoo or is a fairly transparent excuse for inaction.

Looked at from a slightly different point of view, tradeable monetary cost allocations and GDP are simply the wrong metrics for quality of life. Using the rules we have has got us where we are, so we need to change the nature of the rules. If quality of life can be measured, it is in terms of better food, longer life expectancy, better housing, better healthcare and so on. If emissions can be only reduced at a cost to any other factors, this hardly matters - for example less fuel use will hit fuel suppliers' incomes and the GDP, but it will improve people's lives.

In addition, much of the material in the issues document does not address the big issues. We have ended up with an economy crippled by its dependency on two of the worst emissions producers that are possible outside combustibles extraction. That is, ultra low cost bulk generic dairy based products which only compete on price, and high volume tourism to a country only reachable by very long distance air travel. This can be changed, even if it is hard.

On top of this we have destroyed our low emissions transport networks and insist that our cities spread pretty much with the lowest density possible. These two long term actions have also been driven by unconstrained market forces, but are now backed up by an almost religious ideology, and that combination will be very hard to change.

There are several additional points that can be made, which also relate to most of the specific questions.

The first point relates to questions about reducing emissions in areas where there are already viable zero-emission alternatives, such as power generation. The only purpose of discussion is to cause delays - we can stop right now. Owners of such resources have known for decades that they were going to have to stop. Discussion as a delaying tactic unfortunately applies to many of the questions raised.

A second point is that, as is well known, population - of humans, not just of cows - is the basis of the problem. The damage done by each additional human far outweighs any other actions by individuals in the existing population. It is selfish but true to state that we are fortunate in having a low population, and we should make sure this continues.

A third point is that any form of export transition to high value products is very long term but that a transition to low value is and has been very rapid. Consider far eastern economies that transformed their economies and image only after and by decades of doggedly producing high quality exports.

A final point, which relates to several questions (such as Q5), is that existing players have structured their businesses to perform in the time frames their owners and administrations require and thus may well be unsuited to a zero-emissions economy. Far from involving conspiracies and other occult practices, it would be irresponsible to stakeholders in such businesses for management and owners not to attempt to influence the environment in which they operate in their favour. For example, construction firms optimised to construct the traditional low quality short lifetime and energy wasteful New Zealand housing in greenfield sites will do virtually anything to maintain their operations. Likewise, agricultural finance companies who profit from capital intensive farming practices and land price bubbles will ensure that their situation is seen as both normal and desirable. But larger players have long had the resources to realise that the party is over - as for power generation just mentioned. Any sympathy and support should be kept for their victims, such as small builders and homeowners stuck with no-longer viable construction and locations, and individual farmers who have deluded themselves that they were astute business operators by obtaining crippling loans, but who may be quite capable farmers.

As for specific questions :

Q5 - The main issue is that there are going to be losers, and that while individual farmers (in the measure that these still exist) may need to change their products, the real losers will be in the financial sector. These people have accumulated a lot of resources to use to convince the public that any - not just low emission - change in land use which risks their investments would be a disaster.

Q8 - The main barriers to uptake of electric vehicles in New Zealand are probably cost and the lack of public transport. At present many people need an ICE vehicle for longer displacements. When good public transport is available for many people there is no longer a need for private ownership of a personal ICE vehicle, since almost all New Zealanders live in cities. As for cost, the combination of the very low incomes of the majority of New Zealanders and the very high costs of retail products mean that purchase of any sort of new vehicle is difficult for most New Zealanders, whereas it is of course quite normal in most developed countries.

Q9 - As touched on in Q8, a much more even distribution of incomes.

Q10 - The two major opportunities in reducing emissions in transport - as well as simply reducing pointless transport - are the restoration of the rail and public transport networks and the increasing

urban density. As is well known, New Zealand is and always has been highly urbanised, so this is not a matter of attracting rural populations into cities, but of giving the existing urban population the opportunity to share in the benefits of urban life without the requirement for private transport. This means the use of pedestrian and cycle for most displacements, complemented by zero emission urban public transport. It is hardly necessary to add that of course the infrastructure should be appropriate for this. Probably the main barrier to this, as it has been for much of our history, is the individual profit to be made from urban spread and the use of a part of this profit to convince the public that it is desirable. Public reaction against the actual experience of high (or rather normal) density cities is unlikely to be a barrier, as shown by the very high proportion of New Zealand citizens who live very happily in such cities overseas.

Q11 - This is a bit of an odd question, unless dairy processing is counted as manufacturing. The obvious answer is to vastly reduce the dairy herd and increase the value of pastoral exports to the point where there is little or no emissions impact. As far as manufacturing itself goes, high value manufacturing is not particularly heavy on emissions - it is just that we have virtually none. Rebuilding this will be harder. It requires technical and managerial skills that New Zealand no longer has at the required scale. The opportunity is thus - as mentioned above - to transition to high value high quality exports plus local production for local requirements.

Q12 - The current fragmented system for energy supply does not act in the interest of either the rest of the economy or of the environment. We know that deregulation and privatisation has not worked, and even if we were ahead of the trend on adopting this we can now see its failure throughout the world. Maybe creative euphemisms are required to avoid admitting that we got it wrong, but we should stop now and restore a system managed in the interest of the whole economy.

Q15 - Putting aside doubts about relevance of HFC's to discussion of either emissions or current cooling systems and of CCS ever having a meaningful impact, the main barrier industrial renewal is as usual the desire to extract every last drop out of old plant instead of new investment. This is a well known and general problem in all economies where people who benefit from industry have no faith in the future of their sector or of the economy in general. Books have been written about industrial renewal, even if many are probably wrong.

Q21 - Just what more do you need to learn to realise that the market does not work?

Q22 - This is a bit of a silly question, since we no longer do significant R&D. At the low levels we have this is not how R&D works. Anything at all would be good and would mean at least some people capable of even understanding the problems involved could earn a living and remain in the country.

Q23 - It can't. The expression swimming with sharks has been used often enough in this context.

Q24 - Part of this question is just odd - green infrastructure is by definition more or less synonymous with emissions reduction. But, as in the case of market based measures, it is now pretty well empirically established that voluntary does not work.

Q29 - We are so far behind developed countries and indeed some developing countries that such optimisation is not yet an issue.

Q34 - Obviously central government is by far the most important player. However, less obvious players are any organism that purchases from suppliers of infrastructure. As these are now virtually all overseas, it does mean that advanced infrastructure is available. We should have mechanisms in place, both fiscal and regulatory, to ensure that any purchase takes into account lifetime impact of

emissions. Typical examples would be the purchase of industrial processing plant to favour energy recovery and the purchase of electric and hybrid rail traction.

Q35 - Despite the remarks above, sceptical of fiscal measures, one measure that would be beneficial is a massive increase in fuel costs and food prices for the products of intensive agriculture and high transport use, coupled with a massive increase in lower incomes. Note well, an increase in incomes, not the provision of subsidies for lower incomes. At present, lower incomes in New Zealand, as in other countries with severe inequality, are so low that there is little incentive for people to improve their circumstances - they are mostly not stupid enough to believe that there will be jam tomorrow. High prices which can be avoided by more desirable behaviour - using public transport, moving closer to work places, cycling, walking, buying local food and so on - which then leaves solid amounts of disposable income seems like a useful pricing mechanism. This does imply a more egalitarian economy, but that may be a price the country has to pay.

Q36 - To be blunt, this is a silly question, we have no choice if you want to have any sort of reasonable standard of living.

Q40 - Maybe you have to include such questions, but this question is not even wrong. In the time scale over which action is required there will be little change. What happens after this is determined by what is done, not by what we would like.