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Renewable energy subsidies undermine our economy

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Pexels

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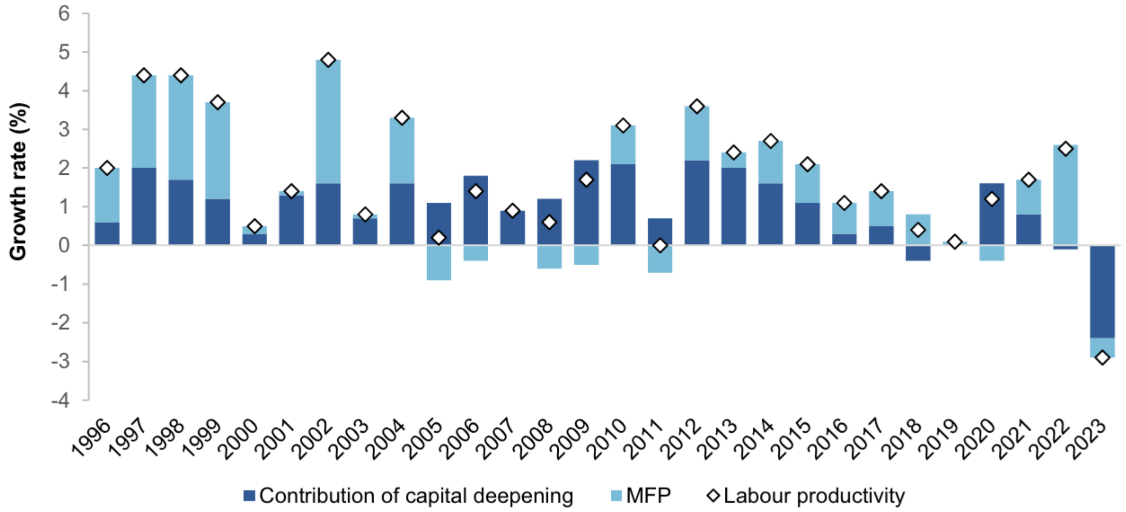
Australia has seen a 20-year downward trend in productivity. Many other nations have seen similar trends and the cause is common: burgeoning growth of government squeezing out productive investment and an unrelenting surge in regulations, especially and notably so in Australia, covering fossil fuel both in its extraction and in its domestic use.

The Productivity Commission depicts the generally downward trend in productivity since the mid-1990s, punctuated by a mini recovery that petered out about a decade ago. In 2022-23 productivity actually fell by 3.7 per cent and remains below its 2021-22 level.

Labour productivity growth and the contributions from capital deepening and MFP in the market sector

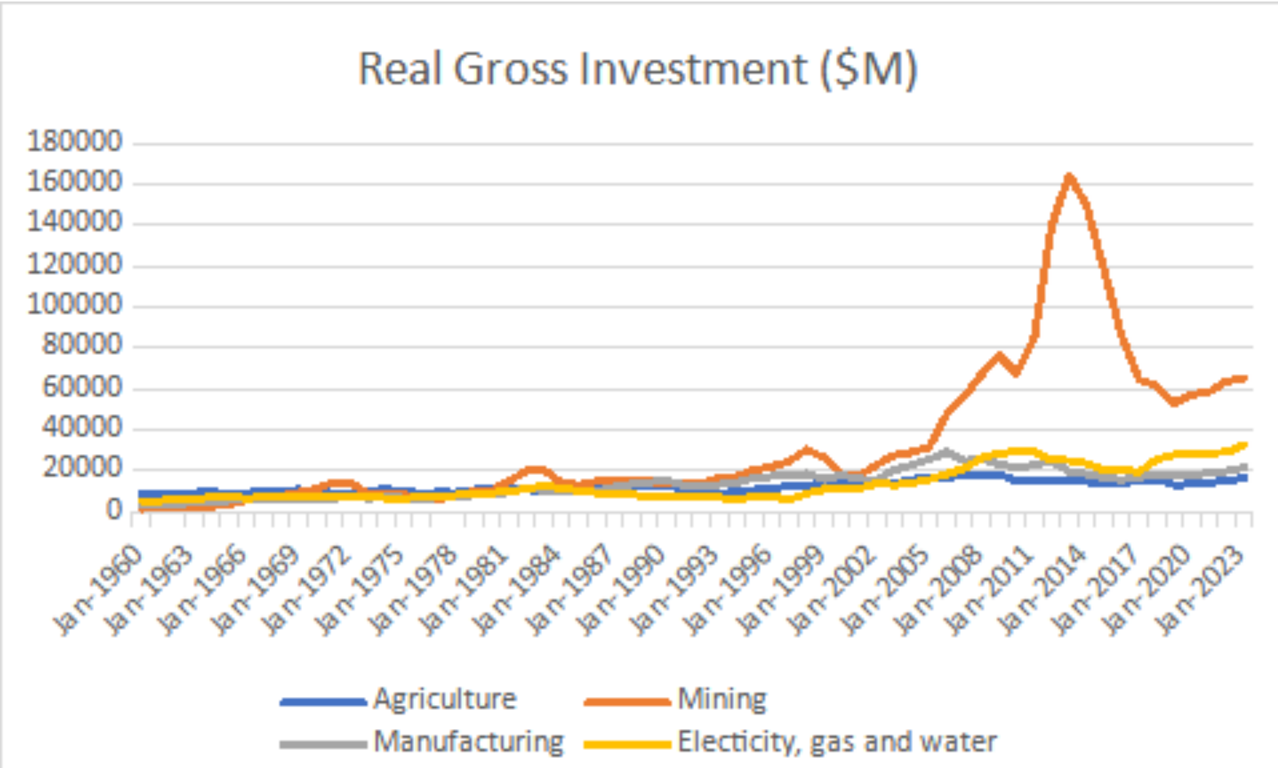


Australia has greater natural wealth per head of population than anywhere else in the world. With good government focused on protecting property rights, ensuring law and order, we would have the highest living standards in the world.

The fact that we are falling short – and increasingly so – of our potential is due entirely to government. The Commonwealth, over the past few decades, has increased its share of the nation's spending from under 20 per cent to over 26 per cent of GDP and has run up half a trillion dollars of debt. We have seen similar increases from state governments – increases that have actually been accompanied by reduced service provision as a result of many former roles having been privatised.

An additional drag on real growth is regulation – the Institute of Public Affairs reports that the number of regulatory restrictions in federal law has increased by 88 per cent since 2005. Regulations have been exacerbated by judicial activism facilitating a well-financed green anti-development movement in preventing, delaying and seriously adding to costs and to investor confidence. Impediments to coal development are seen in all states. For gas, premium anticipated returns are now required for projects. This is a corollary of the travails like the dozen years it has taken Santos to get its Narrabri through a labyrinthian regulatory approvals system and the Victorian government's layered moratorium on gas exploration.

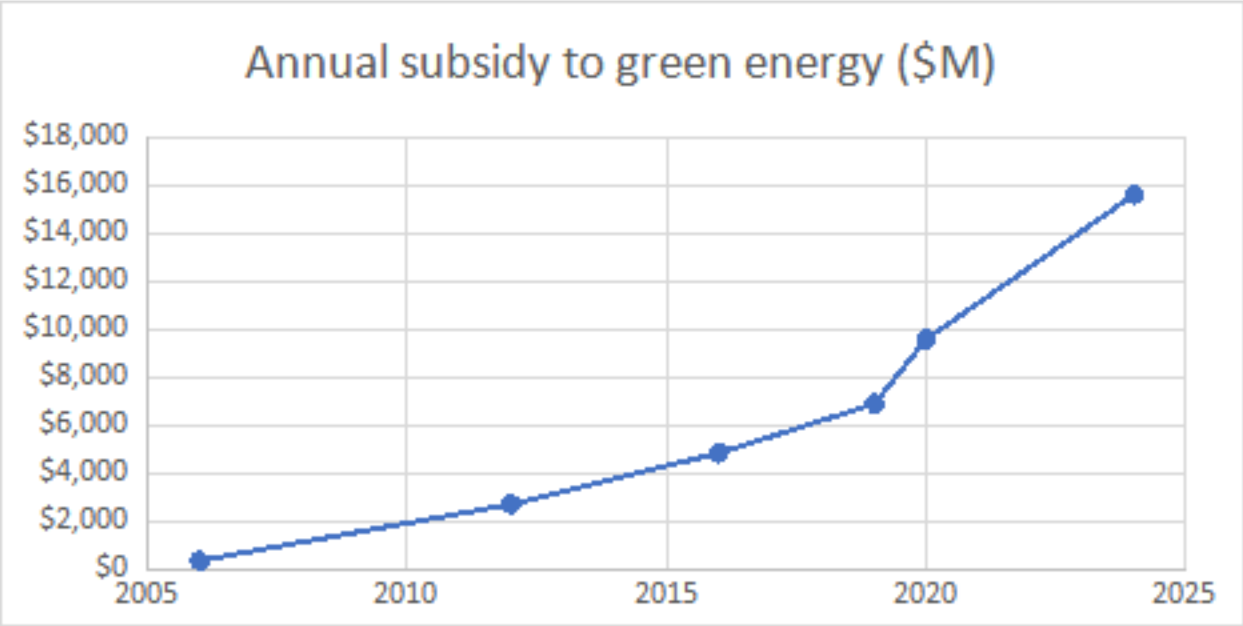
The dominance of mining in national investment, especially in the last 20 years, is evident, as is its collapse over the past 10 years.



Disturbingly, the age of the national capital stock has also increased over the past decade – in the case of manufacturing from 11 to 13 years; for mining from 7 to 10 years and for agriculture from 12 to 14 years. It can be of no consolation that the age of capital has not increased in the electricity, gas, and water sectors since a major component of that sector's new capital is wind/solar electricity, which is highly subsidised and displaces far more productive coal generation, making apparent investment actual *disinvestment*.

Complementing the assault on mining are the progressively growing regulations that subsidise renewable energy.

These regulations commenced with an obligation that retailers ensure '2 per cent of additional' electricity to be provided by renewables, comprising wind and solar that then, as now, are both high cost and unreliable. Although no longer tabulated in the budget papers, the aggregate level of subsidy can be derived from published material. This shows from just a few hundred million dollars a year, the support for renewables is now over $15 billion a year.



The latest budget announced an upgrade in this support with $22.7 billion for Labor's 'Future Made in Australia' agenda, much of which the Opposition has said it will retain.

These subsidies are, unlike other government direct spending and regulatory measures, actually designed to destroy one supply source, coal, and replace it with renewables. The increase in these subsidies bells the cat in claims that renewables are the cheapest form of electricity.

The subsidies have brought about a displacement of coal generation, which now provides about 56 per cent of electricity compared with 77 per cent historically. While initially bringing downward price pressures, the subsidies, in forcing coal generators' closure and sub-optimal operations, have resulted in the ex-generator electricity price rising from under $40 per megawatt hour in 2015 to over $100 today. In addition, the diffuse and intermittent nature of wind and solar requires massive expenditures on duplicating back-up plant, batteries and a threefold expansion of the transmission network. And governments are now subsidising coal generators to prevent them closing 'prematurely' and thereby threatening the entire network.

This increased cost of electricity is already driving out businesses, especially the energy-intensive industries which have been the backbone of the nation's productivity. And Barnaby Joyce asks, 'Name me one global manufacturer who wants to move to Australia – just one. They're all running for the door – aluminium, steel, plastics, oil refining, manufacturing, even food processing now with Cadbury.'