

# Unshackle Our Producers

Walter Starck, *PhD*

Little more than a year ago our political and economic leaders were telling us we faced a prosperous future thanks to their superb management. Never mind that average house prices were the highest in the world at six times average annual earnings or twice that of the level in the U.S. Forget about the fact that buying a home now demands two income earners indentured for most of their working life and debt which would be unsupportable in any downturn. We would soon all be paper millionaires. As for potential risk, there wasn't any. Real estate couldn't ever go down because, "...they aren't making any more of it. " Safe as houses, really.

Then came steep rises in the cost of food and energy with consequent falls in other consumer spending. Loans secured by inflated real estate began to go into default. Overvalued share prices collapsed. Credit tightened dramatically and the whole elaborate structure of debt based economy began to unravel.

The complex financial derivatives touted as insuring against default by spreading risk turned out to have actually been multiplying it. Despite being designed by purported masters of the financial universe, vetted by the most trusted rating agencies and overseen by world's best practice regulatory regimes, all these experts somehow still managed to mistake multiplication with division. In retrospect it seems that a better result might have been obtained by having the oversight conducted by a fifth grade math class.

Only a few months ago with the entire global economy in obvious collapse, our leaders here were still projecting only a modest downturn with a "soft landing" and maintenance of a budget surplus in 2009. Even now when at last the undeniable reality of large deficits and recession are finally being admitted this is still being mis-characterised as "temporary". While it is understandable that leaders must take care in voicing negative sentiment which could entail a risk of becoming self-fulfilling prophesy they also have a duty of honesty. Maintenance of mindless optimism in the face of obvious and inescapable reality to the contrary is only helpless pathetic leadership.

The reality is that both the global and national economies have been poisoned by a massive ingestion of toxic debt. Businesses and consumers now struggle under levels of debt which cannot be supported in a recession. Banks hold trillions of dollars in loans of which an increasing portion is going into default. Investors hold trillions more in junk instruments based on bad debt. Economic recovery will require elimination of most of this bad debt and writing off of massive losses. Until this is done consumers, businesses, banks and investors can neither borrowers nor lenders be. In this condition attempts by government to prime the economic pump by handouts will have only muted and brief effect. Infrastructure projects will likewise have little lasting effect as most will be for improvements that will do little or nothing to stimulate ongoing productivity.

If the current recession were only the result of a normal downturn in the business cycle, recovery could be expected to soon occur more or less automatically with little change or special effort

required; but, this time the situation is indeed different. Never before has so much been owed by so many and never before have national economies been so dependant on global conditions.

Normal recessions are usually just the result of hysteresis in the supply/demand relationship. This is relatively easy to adjust and will, in any event, self correct. A depression involves deeper systemic problems which demand more fundamental changes. The developing global depression is not just going to go away after a bit of jiggery-pokery with interest rates or a bit of stimulation by government.

Hanging over all this is the 800 pound gorilla in the room that no leaders even mention. The biggest problem we face over the foreseeable future will not be how to reduce the use of fossil fuels but rather how to produce enough of them to maintain a healthy economy during the decades which will be required to discover, develop and implement other forms of energy. This will be a daunting challenge and success is by no means certain. It will probably demand a significant restructuring of our entire lifestyle and economy in accord with energy constraints. Trying to achieve this under the added burden of ill-founded carbon emission taxes and regulations will only add to the difficulty and reduce the probability of success. Attempting to accelerate adoption of immature uneconomic alternative energy supplies is also likely to do more harm than good by diverting effort into inefficient and ultimately unsustainable dead ends such as the now unfolding bio-fuels debacle and the increasingly dubious results of large scale wind farms.

Before the current economic recession global energy demand was pressing the limits of supply and prices quickly spiked to crippling levels. Although collapse in energy demand from the recession has quickly reduced prices it has also cancelled most new development. As soon as economic recovery resumes, fuel shortages and steep price increases are set to deliver a devastating second blow.

Clinging to delusions got us into the current mess. Hoping it will all work out right anyway only adds fantasy to delusion. Our leaders seem fixated only on trying to reinflate the bubble; but, restoring the dysfunctional condition that led to collapse is hardly a sound path to recovery. Current leadership has established a convincing track record of cluelessness regarding the real economic situation. It is time for the shareholders in our enterprise to demand either a new strategy or new management.

In terms of climate, resources, geography, population, politics, and development Australia is better situated than any other nation to adapt to the difficult times ahead. This will, however, require making full and effective use of our natural advantages.

The most important thing government can do is not bailout or handout but rather get out of the way. Two highly effective things are eminently doable in this respect. The proliferation of unnecessary stifling bureaucracy requires serious pruning and that which is retained must be made accountable for positive results. Where it fails to deliver benefit it should be replaced.

Over recent decades Australia has seen a vast proliferation of regulation and bureaucracy. While some serves a useful purpose, much of it has achieved no worthwhile result at all or has proven to be a net loss in the balance of costs and benefits. Regulatory demands are now a major obstacles to almost any productive activity. Worse yet, regulation has ossified around existing circumstances and is a significant impediment to change or innovation. What was bearable in prosperity is, in too many

instances, becoming impossible in recession. Never before has regulation been so ubiquitous, restrictive and costly. In difficult economic circumstances It will be serious hindrance to recovery.

In particular, increasingly costly and restrictive environmental and safety regulations have become a major and growing impediment to almost any productive activity. Many of these demands address no demonstrable problem but only hypothetical possibilities. Precaution against risk with no regard for the risk of the precaution has become an extravagantly costly nonsense.

Primary production is the backbone of this economy. It is vital to national economic security that the myriad costs, demands, and restrictions imposed by government on all productive activity be substantially reduced as quickly as possible. In the campaign leading up to his election the current PM promised that his government would, "take a meat ax to the bloated bureaucracy." Unfortunately, a year later, no sign of any such initiative has appeared. The only change has been more fees and regulations. A severe pruning of the bureaucracy would make available hundreds of millions of dollars for more critical needs, save thousands of businesses and facilitate the development of thousands more that cannot even get started under current demands.

The other essential initiative will be to ensure future energy supplies. Without adequate supplies of affordable liquid hydrocarbon fuels for transportation and mobile machinery our existing economy cannot continue to function or to even feed the population. It doesn't run on hypotheticals. At least several decades will be required for development and widespread implementation of alt-energy solutions.

Production of synfuel from coal is a proven technology that could fill the interim energy gap. The only obstacle to implementation is objection arising from the hypothetical danger of GW. The sale of about five times the amount of coal is required to pay for an energy equivalent amount of oil. We could produce all our liquid fuel needs from coal and there are companies wanting to do so; but, they can't because of CO<sub>2</sub> emissions. However, these would be half of what is generated by the coal we sell to buy the oil. It seems government must believe that our coal doesn't produce CO<sub>2</sub> when burned overseas.

Australia's annual carbon dioxide emissions are only about 1.5 percent of the global total. This is barely equal to China's *increase* in emissions over 6 months. Whatever we do or don't do to reduce emissions will have negligible effect on the global total. In any event, estimates of natural uptake of CO<sub>2</sub> over our land and EEZ area are greater than our emissions. By any reasonable accounting, we as a nation should be receiving carbon credits not being forced to buy them.

The prospective Emissions Trading Scheme is set to become just another layer of bureaucracy loaded onto an already staggering productive sector with negligible effect on emissions other than that resulting from further economic decline. To verify the ineffectiveness of emissions trading one need only look at the result where it has been implemented in the EU or at the global result of the Kyoto agreement. Since it was ratified global emissions have increased 18%. Those of signatory nations increased 21%. Those who did not sign increased 10% and those for the U.S. grew by 6.6%.

Over the next few years economic recession is set to result in a much larger reduction in emissions than anything achievable from regulatory measures over the same period. Meanwhile, evidence is steadily accumulating that the amount and impacts of greenhouse warming have been greatly overestimated and that a natural cooling cycle is now over-riding any small increase in GH effect attributable to human emissions. There is no overwhelming urgency to hastily impose yet another ill-conceived regulatory demand on the Australian economy, especially when it can least be afforded and any benefit is distant and uncertain.

The most assured and cost effective way of achieving energy security would be the implementation of a long term corporate tax exemption for earnings from energy production and full immediate deduction for investment in the sector. The result would be an unprecedented boom in Australian energy including an influx of foreign investment and skills. It is not unrealistic to expect that Australia could soon become the global leader in new energy, the Saudi Arabia of a post-petroleum world. Any loss to government revenue from such tax largess could be expected to be made up many times over in increased revenues from payroll taxes and the flow-on effect throughout the remainder of the economy.

The only real obstacle to success is our willingness realistically assess the situation and grasp the opportunity. This way forward presents a clear route down Easy Street. The route we are now taking involves a detour through Jonestown. Only experts relying on computer models could confuse these options and we have just seen what they did for the economy. The choice is a no-brainer.

Whatever you do, don't believe me. Simply pay close attention to what unfolds over the next few months and decide for yourself. Too much faith in clueless authority is what got us into this mess. Our leaders really need to demonstrate that they know what they are doing. If not, it's time to start demanding new management.