

Beware a Carbon Theory of Value

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In the 19th century, Karl Marx argued that the value of goods and services was generated by the input of labour. A key outcome of Marx's thinking was the formation of political systems that placed paramount importance on the position of the worker in society and the neglect of capital inputs into production, notably through restrictions on the private ownership of property.

Over the course of the last decades of the twentieth century, the fundamental flaw in Marx's theory became increasingly apparent. Without due recognition of and rewards for the roles of all inputs of scarce resources in the production of goods and services, wealth creation through economic activity will be curtailed.

As we venture into the twenty first century, there is a real danger of falling into the trap again of giving trump status to one aspect of resource use. This time, the focus has shifted away from labour to the production, consumption and wealth creation process. Now attention is being devoted to a particular output of the process - carbon.

Marxist regimes developed policy on the basis of labour as the primary source of value. Policy in many western democracies, including Australia, has begun to be driven by the goal of avoiding carbon as an output. Incentives are provided for power to be generated from windmills and solar panels. Penalties or even bans are applied to goods deemed to have a heavy 'carbon footprint' such as incandescent light bulbs and plasma screens.

Furthermore, options are being favoured that reduce the carbon outputs arising from their 'operation' without recognising the carbon outputs generated from their 'manufacture'. Solar panels and 'hybrid' cars are examples.

The impact of this 'carbon theory of value' is that due recognition is not given in policy formation to the relative scarcity of all resources at all times. The carbon concentration in the atmosphere is given trump status and so resources are being diverted to uses that are more costly than their less carbon friendly options.

The higher cost involved simply reflects greater relative resource scarcity. The carbon-friendly alternatives are imposing greater pressure on other scarce resources. The higher cost of hybrid cars is an example. So too are the cost premiums associated with wind and solar power generation.

The result of the carbon focus could well be an inappropriate drive to the exploitation of other, relatively scarcer, resources.

A justification for favouring carbon-friendly options may be that the costs imposed by carbon emissions are not embedded in the prices of goods and services. But again this is a carbon biased

view. Even carbon-friendly options can have environment consequences that are not reflected by their prices. For example, the impacts of wind generators on the aesthetics of a district and the outcomes of lead battery disposal are outside the market realm. Put simply, it is not only carbon emissions that may have negative environmental consequences. Favouring carbon-friendly goods may simply tilt the balance against other environmental assets.

Economic history has demonstrated the fallacy of single issue approach to policy. These lessons need to be heeded if we are to avoid falling into the trap with carbon-driven policy.