**The Green Tax Shift Concept and the Economics of Climate Change**

**Slide 1**

Introduce yourself.

The most relevant subjects to this topic would be microeconomics and legal economics, which is the study of how laws affect people’s behaviour.

I would argue that the best engineering solutions to climate change are the ones that no-one in this room has even heard about, and the way to achieve them politically is through clever economics. I would also argue that a lot of the people who argue a sceptical position on the science are really motivated by economic concerns, and concerns about political mismanagement, but there is enourmous social pressure preventing them from saying they value money more than the environment. So if you respond by trying to convince them of the science you might not get very far because you are kind of missing the point.

**Slide 2**

Tonight I have my economist’s hat on, so I am not going to talk about engineering solutions or the science of climate change, and you should not ask me about the science, because I don’t know much about it, and as an economist I don’t need to know much about it, other than that people want to reduce our GHG emissions and would be willing to incur a certain cost to do so.

When I put my economist’s hat on, you might expect me to predict the future, so this is my prediction of what we are going to talk about for the next half hour.

**Slide 3 – Statement of economic consensus**

This slide is my attempt to add some authority to my message. It is a statement of economic consensus on climate change. It was signed by over 2600 economists way back in 1997, including 18 Nobel prize winners, and to this day remains the largest public statement in the history of the economics profession. Economists have been saying the same thing about climate change for over two decades now, and for the most part people have not been listening.

What economists pretty much universally say is that reducing our GHG emissions can be done cheaply and the best way to do it is through market mechanisms, which is an economic euphemism for a price on GHG emissions. This particular statement does not distinguish between a tax and a carbon trading scheme, and I will get to that later. I also left out the first paragraph, which is a statement from economists on the science of climate change, which I think detracts from the authority of the statement a bit because if you want to know about the science you are not going to ask an economist. The third paragraph in particular is one that I think all economists would agree on. So even if an economist disagrees on the science, if you can get a straight answer out of him he would agree that market mechanisms are the cheapest way to reduce emissions, and even if he is a laissez faire capitalist, or a gun toting subscriber to the Chicago school of economics, or off fighting for ISIS, or against ISIS, or say, in a coma, he would still agree with that last point, because it is undergraduate stuff.

**Slide 4 – Low hanging fruit**

Economics is about the reality of what people do, what motivates them to do it, and the consequences of those actions. It is also, inevitably, about how to change that reality. Economists view people as being motivated by vague desires for all sorts of goods and services, and today there is an enormous variety on offer. Countering this desire is a reluctance to let go of their hard earned dollars.

How many of us here also try to consider the ecological footprint, or the carbon footprint, of most of the things we buy?

I would say that for the most part, that is a waste of time, because you don’t actually know what the ecological footprint of most goods and services is. In lieu of that knowledge you might use a variety of rules of thumb to guide your decisions, but the complexity of the goods and services on offer, and the range of social and environmental problems they cause, mean that these rules of thumb tend to be gross over-simplifications. And the reality is that most people just give up and go back to what they were doing before they found out about the problems.

This might paint economics as a fairly dismal science, but the opposite is in fact true. Because when you can see and understand the reality of what makes people do all the things they do, you can also see opportunities to manipulate people into doing what you want, which is of course to make the world a better place. Those opportunities are usually very limited, and a common theme of legal economics is that people will continue to do what they desire, even if you, for example, make it illegal. However the opportunities that do exist are very powerful.

In the case of climate change, the message from economists is particularly positive, because unlike more entrenched problems like drugs or overfishing for example, no-one actually wants to emit GHGs. What we actually want is goods and services, and there is a big disconnect between those goods and services and GHG emissions, which is to say, those emissions are not an inevitable consequence of having a good quality of life. Even if we take another step closer to what we want and look at electricity, petrol and cement, no-one actually wants these things either. No-one wants to drink petrol or eat electricity. The carbon footprint of what we buy is linked to how it is provided, not what the end product is. Furthermore, there is often a large number of steps between emitting GHGs and getting what we really want, and each of those steps is an opportunity to reduce our carbon footprint. A lot of these opportunities are subtle, technically complex, hidden from the view of consumers and inaccessible to direct government intervention, but economists are telling us, correctly, that you can still take advantage of every one of those opportunities.

I will reinforce this point with a few examples. These are fairly contrived, but my intention with them is to explain in conceptual terms why economists think it is so easy to reduce our GHG emissions.

Let’s start with the example of a large company with a number of factories. Someone in the company has the bright idea of changing out the incandescent lightbulbs for fluorescent ones, which might save them money and also have the unintended consequence of reducing their GHG emissions. So the bean counters get onto the job, and they report back to say that the cost of changing out all the light fittings is $100,000. They also report that the total net savings anticipated from the change is $99,999. So their recommendation is not to make the change, because it would make the company $1 worse off. So, this is the dismal part of economics, because you are stuck in this reality where we miss this opportunity to save an enormous quantity of GHGs from being released into the atmosphere, even though it is pretty much free, in the sense that it pays for itself. But, economics is also a hopeful science, because it also tells you that there is an opportunity to achieve that reduction, and all you have to do is throw in $1, ideally without doing a mountain of paperwork.

Now, you’ve probably come across information on the cost of electricity from coal vs gas, which has less of a carbon footprint but is more expensive, and also the cost of electricity from renewable sources, which is fairly expensive in comparison. And so you might have concluded that reducing our GHG emissions has a hefty price tag. But the point of my light bulb example is that before you go and spend all that money, there are much cheaper ways to reduce our emissions. There are all sorts of options that are almost viable from a purely financial perspective.

Let’s consider a more realistic example, which is you, standing in the freezer section of woolies, eyeing off the apple pie. Being a conscientious consumer, you know that there are a lot of steps to get that apple pie into that freezer. There are people mining bauxite and smelting aluminium. There are people chopping down trees and making cardboard. There are people driving trucks around and supplying electricity for the freezers. And I haven’t even mentioned food yet. There are people growing wheat, and if it’s a really good apple pie there might even be apple farmers involved, though they could be on the other side of the world. You add a few more steps by purchasing it, driving it home, putting it in your freezer, taking it out, and whacking it in the oven. If you break it down into smaller steps there might be a thousand of them. Each of those steps has a carbon footprint, and most of them are invisible to you. If we take another step back, each step has a lot of decisions behind it, so depending on how detailed you want to get there might be 1 million decisions made in order to get that apple pie in front of you. I suspect a more extreme version of the 80:20 rule applies here, so maybe 1% of the decisions are responsible for 99% of the carbon footprint. But that still leaves us with 10,000 important decisions that you as a consumer cannot see and that the government has no direct influence on. Then you as a consumer has to decide whether you even want an apple pie, or you want to spend your money on something else that will satisfy you just as much (or maybe even make you happy). If you settle on apple pie, you also have to decide which one to buy, based on how much each one costs, how good the picture on the box looks, and maybe some green ticks or similar on the box.

Each of us makes a large number of these purchasing decisions, and in most cases there is no realistic way to know what the carbon footprint of each of our decisions is, no matter how much we would like the government to interfere in those decisions or provide us with information to make us informed consumers. So, this should give you some idea of the complexity of the problem, as well as the complexity and sheer number of opportunities available to us to reduce our GHG emissions.

**Slide 5 – The emissions reduction multiplier**

This slide is a neat generalisation of the opportunities available to us to reduce our emissions, in the form of all those decisions that happen between emitting GHGs and you pulling the apple pie out of your oven.

Suppose for example that you can reduce the amount of GHG emissions required to produce electricity by 50%, for example by using gas rather than coal. You can also reduce the amount of electricity required to produce a material by the same ratio, and then halve the amount of material that goes into an item, halve the number of those items you buy, and then re-use or recycle half of them in a clever way, then you reduce your own carbon footprint by 97% without a significant impact on your quality of life. And this does not have to apply to everything you buy, only to those items with the big carbon footprint.

So, those are the types of opportunities available to us if we are economically rational about how we reduce our GHG emissions.

**Slide 6 – High hanging fruit**

In contrast to this, the government is often pressured to get involved and be seen to “do something” on climate change, but because all the low hanging fruit are inaccessible to them, they go with the most visible, but also the most expensive options, such as a mandatory renewable energy targets. One good, but unintended consequence of those mandatory targets is that they push up the price of electricity significantly, which leads to a reduction in electricity consumption. This outcome is similar to a carbon tax, except that where a carbon tax itself has no net cost to society until people make changes to avoid paying it, those renewable energy sources do have a real cost to build and maintain. So by imposing them on us, the government is reinforcing this idea that reducing our emissions is a huge burden on the economy. I personally think that the political damage done by these poor decisions is even more significant, and is why the political debate on climate change gets so polarised and has stalled for 20 years. It is worth pointing out here that people do not actually want wind turbines or solar panels any more than they want to eat electricity. What we want is to reduce our GHG emissions, and renewable energy sources are only one of the many ways to achieve that. They reason they are more popular politically because they are highly visible, while the cost is either obscured or ignored, at least by their supporters – but if you read The Australian it regularly talks about the huge cost, which I think is fair.

**Slide 7 - Perfect competition – the ideal free market**

I will now go into a little detour on economic theory, mainly because you will often see these terms thrown around by economists or journalists and not necessarily know what they mean, and also because you don’t need to understand all the theory to understand the economic justifications for government intervention in the marketplace.

**Who here has studied microeconomics?** … the rest of you might have to just take my word on this for the moment.

This first paragraph is my attempt to put into words what economists normally say with supply and demand curves. This word ideal has a particular meaning, but unfortunately it would take me a few hours to communicate it, if you don’t already know what it means. If you are interested, look into supply and demand curves.

This ideal outcome requires certain conditions, which are normally treated as assumptions in teaching micro-economic concepts, and are collectively called perfect competition. I don’t think the significance of these assumptions is taught until people go onto subjects like law and economics. They are the conditions required for the free market to achieve an ideal outcome if left to its own devices, with minimal government interference. I have listed here all the ones I could find, and the first 3 in larger font are the ones that are important for this discussion. Where the real conditions differ from the idealised conditions, economists might use the term market failure, and there might be an argument for the government to interfere in the economy. And by interfere I do not mean discarding capitalism, I mean making a few small, clever changes that will gently push the reality back towards perfect competition.

The first condition is an absence of externalities, which means someone else is affected by your purchasing decision but they have no direct involvement. So, person A sells an item to person B, who uses it, but person C, who was not involved until now, is affected in some way. A negative externality is where person C is affected in a negative way. Now the legal economists would tell us that this alone is not sufficient justification for government interference, because person C can usually find a way to get involved, for example by offering them $5000 not to go ahead with the deal. This is the case when only a very small number of people are affected and the rights of persons A, B and C are clearly defined.

The second condition is that transaction costs are low compared to the price, which means person C does not have to spend $10,000 on paperwork to get that $5000 to them. The problem of GHG gas emissions is an example of a negative externality with extremely high transaction costs that prevent a free market resolution, because every time you buy something you are causing the emissions of GHG’s, and there are a few billion people affected by that decision, and it would cost a lot of money for them to get directly involved and negotiate to pay you $1 to not buy that particular apple pie with the big carbon footprint. They are also limited by the fact that there is no clear legal right to breathe clean air, so even if they could stop one transaction, two other people might go ahead and do the same thing.

**Slide 8 – Carbon taxes**

So in the case of GHG emissions there is a very clear economic justification for the government to intervene, and I argue tonight that they should do this with carbon taxes.

The basic idea is that you put a price on the emissions close to where they happen, which is actually quite easy, because the emissions happen at a small number of power stations that are already heavily regulated. In the case of petrol, you can put the tax where the petrol is imported or refined, which again only involves a small number of transactions with the government. So the bureaucratic ‘transaction cost’ of the tax is low compared to the revenue raised. You can also put the tax on people who manufacture cement, which is another major emitter, and if you really what to be unpopular you tax cattle farmers for the methane emissions from cattle.

A carbon tax is called a market mechanism by economists because that price is then passed down into the economy and market forces take care of the rest. The price of every item on the supermarket shelf is then affected, and the amount the price changes by is a measure of the carbon footprint of the item. Some prices won’t change much. Some will go up a lot. Also, the financial decisions made at every step of the way to getting those products on the shelves is also affected, so that people see the conventional cost as well as the environmental cost of every business decision they make. This is where I like to say that money talks. We have no easy way to predict how this would play out, because at each step of the manufacturing process there is an opportunity to reduce consumption of various inputs, which means reduced emissions. This is a tax that we actually want people to avoid paying, and because it is easy for the government to enforce the tax, the only way for people to avoid it is to make decisions that reduce their carbon footprint. And they do this unconsciously by doing what they always do – looking at the price tag and deciding whether to buy something. There is no need to change people’s attitudes or agree on how to reduce emissions. The only consensus-seeking we need to do is figuring out what price to put on a ton of CO2.

Now I may have implied so far that the benefits of a carbon tax are limited to those options to reduce emissions whose cost lies somewhere between the price of coal vs the price of renewable energy sources. But this is not the case, because if you push up the price of GHG emissions far enough the electricity companies will start to use renewable energy sources, and they will do this without being told to by the government. Now, that transition is a very complicated process, and one that the government should stay out of, at least directly. A carbon tax will not only allow us to pick the low hanging fruit of reduced consumption, it will also allow us to later pick the high hanging fruit by making the transition to renewables in a timely and rational manner. My example from before of reducing our emissions by 97% without switching to renewables or taking drastic action should give you some indication that is might not even be necessary, at least not in the short term.

**Slide 9 - Green Tax Shift**

I claimed earlier that renewable energy has a real cost, but a carbon tax does not. What I was getting at there is this concept of a green tax shift. I have drawn your attention to the word shift here, because it means that you put a tax on GHG emissions, and use the revenue raised to reduce other taxes. That is, we shift the tax base from things like GST or income tax to things that we actually want to put a stop to, like GHG emissions.

Now, if people were to make no changes to their decisions, the government gets the same amount of revenue and spends it the same way, people buy and sell the same things, and other than some people being slightly worse off because they have a high impact lifestyle, and some people being slightly better off, there is no cost to society as a whole. Of course, I don’t believe that will be the case, my point here is only that the tax itself does not have a real cost if you use it to reduce other taxes. It only has a real cost when people avoid the tax by changing how they do things.

As I suggested with my light bulb example, they will start by making changes that have a very low real cost, because the changes are already almost justified on price alone. In the case of retail consumers, people will make purchasing decisions that leave them equally satisfied, or almost as satisfied, but significantly reduce their emissions. Economists have an easy way of measuring the value of that consumer satisfaction in the same way the theoretical bean counters measure the cost of changing light fittings, which boils down to the price people are willing to pay for something.

I mentioned that some prices on the supermarket shelf will go up. If we use the revenue from a carbon tax to reduce the GST, some prices will actually go down, so items with a small carbon footprint will actually become cheaper. Alternatively, if we use the revenue to reduce income tax and bump up welfare payments, the price might go up slightly, but those items with the low carbon footprint will still be more affordable because we have more disposable income. So it doesn’t really matter what other taxes we use to offset the carbon tax, there is initially no net effect on the average affordability of products, and there is no net cost incurred until we start making changes.

Now, I think it is worth highlighting here that the carbon tax revenue should not be used to subsidise renewable energy sources, and I reinforce this point because that tends to be people’s intuitive response when asked what the government should do with the revenue raised. The whole point of this is to start with the low hanging fruit.

Another key point of the green tax shift concept is that the shift part avoids confounding the political debate around climate change with the eternal political argument over big vs small government. Or at least, it avoids it if people understand what it means and stick to the green tax shift concept. If there is any hint that it is another tax grab then the whole issue gets bogged down in partisan politics.

**Slide 10 – Implications for international negotiations**

I mentioned earlier that both taxes and a cap and trade scheme are a type of market mechanism, which is what economists broadly favour. I will now move on to why I think a tax is a better option than a trading scheme. The first benefit I see is that it makes international negotiations a lot easier. Under a global cap and trade scheme, we have to invent a literal third currency, which is emissions permits, and we have to be willing to send huge amounts of this currency overseas. We have to trust foreign governments, some of which are extremely corrupt, to properly enforce the rules. We have to allocate the permits upfront, which means deciding which countries have a right to emit GHG’s, and how much they have a right to emit, so that they can then sell those rights to the highest bidder. We may also have to pay off third world countries because we do not grant them the same rights. I sometimes think that the big oil and coal companies must have paid off a lot of people to go down the cap and trade route, because the negotiations are pretty much doomed to fail.

A carbon tax is a better alternative. In terms of international negotiations, all we have to get governments to agree to is a minimum price on emissions. Then we leave it up to each government to decide for itself what to do with the revenue raised locally. It requires far less trust between countries. It completely avoids the upfront decision of how much each country has a right to emit and whether to pay off third world countries, which is a big one that we are still stuck on after 20 years of Kyoto.

**Slide 11 – Implications for price stability**

So that’s a political argument in favour of a tax over a trading scheme. Let’s move on to more of a financial argument. Let’s consider the example of a company considering spending a large amount of money to reduce their carbon footprint, because they are anticipating a higher price on electricity, petrol, or cement. So this might be my light bulb example from earlier. Both a tax or a trading scheme work by pushing up that price, but there is a big difference between the two in terms of how that price behaves. A carbon tax imposes a fixed price and lets market forces decide what level of emissions we end up with, so the actual reduction is a little unpredictable. A cap and trade scheme imposes a fixed reduction and lets market forces decide what price is required to achieve that.

My key point here is that people are motivated to make changes based on the market price of emissions, not the quantity of emissions that the government permits. If there is any uncertainty in that price, this becomes a financial risk to the company considering spending $100,000 on changing out light fittings. So under a cap and trade scheme we end up with a market failure attributable to uninformed consumers who are unable to predict what the return on their investment will be, which causes a bias toward the quick and easy solutions rather than the expensive solutions with a long payoff period.

**Slide 12 – Implications for price stability**

**Break for questions**

This slide here shows a made up example of what might happen to the price on emissions over a 20 year period. The blue line shows the price under a tax system. We start with a tax of $20 per tonne of carbon emissions, or the equivalent of methane and other gases. We run with that for 10 years and see what happens. This graph does not show you what happens to our emissions, but in this example society decides, politically, that we have not seen enough reduction, so we double the price to $40. The alternative shown in red is for a trading scheme. We start by the government setting an allowable amount of emissions and either giving away or selling those rights. The sceptics and economic doomsayers have a field day because the price skyrockets, because there is simply no easy way to immediately reduce our emissions. People apply every quick and dirty fix they can to reduce their emissions, and after a year the price drops dramatically. Some people also made a longer term investment to reduce emissions, and those decisions start to kick in, and suddenly we realise that it is actually very cheap and easy to reduce our emissions, and we know this because the price plummets. And this is what we have actually seen on the few occasions that a cap and trade scheme has been implemented, for example in Europe. But, we have then achieved our target and there is no longer much incentive to further reduce our emissions. The people who made long term investments to reduce emissions lose money because the value of those reductions is extremely low, which means little return on their investment.

Then, at some point the government decides to buy back some permits, so they raise the GST to fund this buyback. The price of emissions then goes up again. All the big emitters who were handed for free the right to emit GHG’s get a massive payout, funded by you the taxpayer. So essentially we end up actually paying people for the emissions they created prior to the scheme coming in. The clever people who see this coming actually ramp up their emissions prior to the scheme coming in, because they anticipate getting free money in the form of emissions permits, which are based on what they are emitting at a certain point in time.

But again, the price soon drops and the government looks silly because their big announcement only turned into a little blip on the price of emissions. So next time they do it they overdo it a bit and the price goes really high. People again do all the quick and dirty tricks to reduce their emissions, but once again people who understand what is going on have less motivation to make big long term investments, because the government has created this uncertainty in the price if emissions, which translates into a financial risk for everyone considering investing money to reduce emissions.

Now, a theoretical economist might tell you that there is no real difference between these two schemes if the average price over time is the same, but that relies partly on an assumption of perfectly informed investors who can predict what the future price is going to be and thus feel comfortable making the investment. But they are right in the sense that the government can, and most likely will at least try to smooth out the price of emissions under a cap and trade system. And those theoretical economists might even tell me that I have created a false dichotomy here, because the distinction between these two schemes gets very blurred. For example, the government could announce a scheme whereby they sell off 12 month permits every year at a fixed price of $20 per ton, cap the number available for sale, but allow people to then buy and sell them. If they limit the number of permits available to just below the current level, but just above what they expect the level to drop to, then the cap never kicks in and the price of the permits remains the same as what the government is selling them for. So, technically this is a cap and trade scheme, because there is a cap on emissions, and people are allowed to trade the permits, even though they generally have no reason to. But it is identical in every meaningful way to a carbon tax. The key point I would make here is to ignore what a scheme is called, because the government will call it anything other than a tax, even if that is what it is. Instead, ask yourself two key questions.

One: will it result in a steady and predictable price on emissions.

Two: will the revenue raised by the sale of the right to emit be used to reduce other taxes, or will it take the form of a handout that rewards the big emitters and actually costs taxpayers in the future when the rights have to be bought back off them by the government.

I mentioned before that I suspect that the big emitters probably bribed a lot of people to go down the cap and trade path because it dooms international negotiations to failure. Another big incentive they have is that a cap and trade scheme will likely result in those permits, which are a right to emit, being handed out for free, which will be a windfall for those emitters and effectively reward them for past emissions, and possibly even motivate them to ramp up emissions in the meantime.

We must be very careful here because we are essentially creating a property right. Under a carbon tax, we are declaring that the public has the right to clean air, and we will sell that right, at a price and on a temporary basis, to people who want to emit GHGs. That translates to government revenue that can be used to reduce other taxes, which means that there is only a real cost to society when we make actual changes to reduce our emissions.

A ‘conventional’ cap and trade scheme does the opposite. It is a declaration that the big emitters have a right to go on emitting GHGs. Those rights are probably handed out for free, and we the public must buy them back at a later date. Now economists will tell you that there is no difference between the two options, because the reduction in GHG emissions still happens, and positive economics has nothing to say about how those rights are allocated. I am finishing up here with a normative statement about fairness and who ends up with the money and the right to clean air. And how much tax we pay. However, how fairly we make this change will have a real effect on the political process, and a solution that is either too expensive or unfair will stall the political process.

**Slide 13 – More information**

<http://www.ozpolitic.com/green-tax-shift/green-tax-shift.html>

**Slide 14 – Other green taxes and economic mechanisms**

So far I have made the green tax shift concept all about GHG emissions. That’s because it is the big decision of our time, but this is a far broader concept, and this slide shows some other examples.

The price of water should reflect the cost of building new dams, which is what I mean by the marginal cost of supplying water. This price will be higher than historical prices because, in general, we pick the best sites for the first dams we build, and any more dams we build will be in sites that are not quite as good, so the cost of new water supplies (per litre of water) is higher. You may not realise, but manufacturing cement actually causes a lot of greenhouse gases, so there should obviously be a carbon tax on cement, which will make a cement wall more expensive. You could also argue that there should be an additional tax on dams associated with the methane emissions from all the plant material that settles on the bottom of the dam and starts to decay in a low oxygen environment. There should be a tax associated with the value people place on having healthy rivers, and on the impact that dams have on downstream fisheries. And finally, when water gets scarce, the price of water should go up in the same way it would if the supply of water was an entirely free market enterprise. The alternative to this, which is the government telling people they have to use a watering can instead of a hose to put the same amount of water on the ground is the sort of inefficiency and micromanagement I would associate with communist regimes. If the price of water goes up, people will find all sorts of innovative ways to reduce their water consumption. That innovation will likely not include water tanks, which are an absurdly expensive option – they are the water equivalent of renewable energy sources.

Similarly for petrol, the price should reflect the cost of building and maintaining the road system. The reason for this is that petrol consumption is a really good proxy measure of how much damage a vehicle is actually doing to the roads, and how much space they are taking up. The price of petrol should also reflect a carbon tax associated with the GHG emissions. And finally, the GST should be added on top of all these things. I realise this is a tax on a tax, which sounds a bit unfair, but you need to remember that this tax on petrol to account for road costs and emissions is actually the sale of goods and services. The goods are the roads and the right to emit GHG’s, and the service is the maintenance of those roads. If we exempted that from GST, we would in fact be subsidising GHG emissions and the over-use of a nominally free service, compared to other products. Of course, this may be a moot point because we could use the carbon tax and other green taxes to eliminate the GST completely.

The price of electricity should vary based on the bulk commercial spot price. If we did that, it might go some way to showing that the need for massive baseload supply is a bit of a furphy, because it is mainly the result of power suppliers being forced to pay a high price for electricity during peak demand periods and sell it to the public for a much lower price, because the public is protected from the fluctuations in price, and goes on using very expensive electricity, oblivious to the cost.

As a final example, the price of steak should reflect the minimum known net GHG impact of methane emissions from cattle. Now at the moment we are still just scratching the surface on that one, and compared to say letting kangaroos eat the grass, or termites eat decaying wood, there may not be any net impact at all, but it is a space to watch.

**Slide 15 – Sources of conflicting economic advice**

We often see apparently conflicting economic advice from various sources such as the news. I have listed here what I think are the three main causes of this conflicting advice. The first is that economists are most often asked to predict the future, which is obvious fraught with danger.

The second is that sometimes economists, or more likely people pretending to be economists, confuse positive and normative statements, which is to say, what is true vs what is good or fair. This is the distinction between say, what the consequences of a government policy will be, and what government policy should be, regardless of the consequences. Again, when discussing the consequences, economists cannot actually predict the future, they can only tell you in a relative sense what the difference between two policies is going to be.

The people I see exploiting this deception most often are those who reject Keynesian macro-economics, which basically means the role of the reserve bank, in favour of Hayek’s views. If you ask the right questions you can usually get these people to reveal that they don’t really care about evidence, they are talking about what is ‘right’ or ‘fair’, but initially they will wrap a normative statement up as a positive statement. This is actually one of the very first things you get taught in an introduction to micro or macroeconomics course, and students are taught not to confuse the two and that normative statements are not really economics.

The third reason is that economics is counter-intuitive. Nowhere else is this statement – that the road to hell is paved with good intentions - more true than in economics. This also makes economics far more interesting and enlightening than you would expect, and I also think it should be incorporated more into the education curriculum.