The Australian state and carbon pricing

A case of contradictory objectives

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Statement of originality: this work contains no material which has been accepted for the award of an other degree or diploma in any university, and to the best of my knowledge and belief, this thesis contains no material previously published or written by another person expect where due reference is made in the text of the thesis.
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INTRODUCTION

Carbon pricing: a state project

Carbon pricing has emerged as the dominant response of nation-states to the climate crisis. World Bank estimates show 7 per cent of global emissions are covered by an actual or scheduled carbon price (ECOFYS 2013, p. 12). This figure will rise to more than 50 per cent if China, Brazil and Chile adopt a carbon price, something their governments are considering (ECOFYS 2013, p. 12). It is widely expected that China will have a carbon price by 2020 (Nicholson 2013). The International Monetary Fund (IMF), World Bank, and Organisation for Economic Cooperation and Development (OECD) are strengthening encouragement for the world’s finance and climate ministers to put a price on carbon (‘Global push for carbon pricing grows’ 2013). The Stern Review on the Economics of Climate Change, an international manifesto for state policy on climate change, says it is an urgent priority to develop compatible carbon prices across the globe (Stern 2006, p. xxiii). In Australia, a carbon price has been operational since 1 July 2012. The experiment is likely to be short-lived, given the promise of the recently elected Coalition government to repeal the policy. But it is worth remembering that carbon pricing has been on the national agenda for over a quarter of a century, and has been the policy of both major parties at different times (Burgmann & Baer 2012, p. 102).

This thesis applies the insights of Marxist state-theory to the development of carbon-pricing policies in Australia from 2006 to the present. It will establish an account of the rationale and forces which underpin the Australian state’s
preference for carbon pricing over regulatory or direct investment strategies, by locating this policy choice within a broader account of state-capital-environment relations. This analysis has implications for whether the adopted carbon price scheme can be effectively reformed, or whether it is an inherently crude, and ultimately ineffective, instrument to respond to the challenge of global warming.

Carbon pricing is based on the neoclassical notion of ‘externalities’, which says that market processes and exchanges produce external costs that are not accounted for in the price of goods themselves (Prasad 2010, p. 363). In this framework pollution is an externality, and climate change is a consequence of a “failure of the price mechanisms, the failure of the market to cost the damaging effects of the build up of greenhouse gases” (Rosewarne 2010, p. 17). To move towards a low emissions economy, the theory goes, the costs of CO₂-equivalent emissions need to be internalised by being included in prices. This can be done by issuing pollution permits to industry at a set price, or by setting a cap on emissions and letting the market determine the price. These are, respectively, a carbon tax (or a ‘fixed’ carbon price) and an emissions trading scheme (ETS).

In November 2011 the Australian government under then Prime Minister Julia Gillard passed legislation to introduce a national carbon price scheme as part of the Clean Energy Plan (CEP). This price was “fixed like a tax” (Commonwealth of Australia 2011, p. 9) and came to be commonly referred to as ‘the carbon tax’. The fixed price, set at $23 dollars per tonne of CO₂-equivalent and rising by 2.5 per cent a year, was to last three years before transitioning into a “fully flexible price under an emissions trading scheme, with the price determined by the market” (Commonwealth of Australia 2011, p. 9, p. 15).
The logic of carbon pricing has been challenged theoretically and empirically. For example, the assertion that a higher price on emissions will lead producers and consumers to reduce their consumption of emissions-intensive goods by finding substitutes assumes alternative technologies are available, and that all the costs associated with technological transition are captured in the price (Spash & Yo 2012a, p. 71; Perry et al. 2013, p. 108). In fact the relationship between the price level and the environmental cost, and between the price and the cost of any transition, is quite arbitrary, since the price is influenced by other factors such as the availability of offsets, the method of permit allocation, secondary speculation markets, and political pragmatism (Rosewarne 2010, p. 39). Neoclassical economists (e.g. Tietenberg 2006; Pearce 1976) claim carbon pricing is a way to force companies to internalise the full costs of their environmentally destructive behaviour, but these costs may be displaced geographically and temporally rather than internalised (for example by relocating production or through the use of credit systems) (Bond 2012, pp. 686-7). There is also evidence that firms do not always act to maximise profits, and may prefer to absorb an extra cost and a reduced profit rate if it means they have a stable level of profit (Prasad 2010, p. 368).

The Australian carbon tax has been criticised against several criteria. The scheme is moderate in its scope, covering only 300 polluting firms, revised down from an initial 500 (Spash & Yo 2012b, p. 151). This is less than half the number that would have been covered by the CPRS (Spash & Yo 2012b, p. 151). The policy has not been designed to reduce absolute emissions, only to ensure that “growth in domestic produced carbon pollution slows” (Commonwealth of Australia, 2011, p. xii). The target of just 5 per cent emissions reduction by 2020
was predicted to be met only through the use of overseas ‘offsets’, with treasury modelling showing that domestic emissions will decline only “after 2030” (Treasury 2011, p. 6). Furthermore, the carbon price risks ‘locking-in’ future emissions, particularly from an expected growth in gas-fired power stations (Passant 2011, pp. 11-12). Treasury modelling forecasted gas fired electricity to double by 2050 under a carbon price (Commonwealth of Australia, 2011, p. xii). ‘Compensation’ arrangements for emissions-intensive industries covered by the carbon price has also drawn criticism. The Energy Security Fund, for example, had $5.5 billion to ‘assist’ “strongly affected generators” (CME 2013, p. 3). Victorian brown-coal electricity generators collected windfall profits out of these arrangements, with a recent study finding they would have reaped between $2.3 - $5.4b over approximately five years (CME 2013, p. 5). This provided an incentive to prolong the operating life of inefficient power stations.

Evaluations of the impact of the carbon tax over its 16 months of operation are still emerging, but the available information indicates that it is less than a success story. According to the report *How Australia’s Carbon Price is Working One Year On*, emissions generated through the National Electricity Market (NEM) fell by 7 per cent between July 2012 and June 2013 (DIICCSRTE 2013, p. 4). But electricity demand has been falling for several years now, well before the introduction of the carbon price (Brazzale 2013; DRET 2012, p. 31). One major contributor to reduced electricity demand has been the “gradual take-up of distributed solar photovoltaic generation in the residential sector” (DRET 2012, p. 31). This is a welcome development, but is the outcome of the Renewable Energy Target (RET), not the carbon price (CER 2013). Another factor contributing to falling emissions is reduced demand in the manufacturing and industrial sectors, including the closure of Kurri Kurri
aluminium smelter in 2012 (Uren 2013; Business Spectator). This drop off in demand is not likely to be permanent:

Demand is expected to remain steady at its current level during 2012–13 (AEMO 2012b) before returning to growth over the remainder of the decade (DRET 2012, p. 31).

Over approximately the same period (March 2012-2013) an increase of 12.7 per cent in fugitive emissions (leakages) from the mining sector, and an increase in non-electricity stationary energy usage, have almost exactly offset the decline in emissions from electricity generation (DE 2013, p. 4). The flaws in carbon pricing theory identified by critical academics have been validated by some of the outcomes of the Australian carbon tax.

Despite the weaknesses of a carbon price, alternative ways of achieving deep emissions cuts have been systematically deprioritised by policy makers. In particular, options based primarily on state-enforced regulation or state-led investment into alternative, low-emissions technologies have not received serious consideration. The CEP captures this:

Rather than relying on government decisions to regulate some activities or subsidise others, a carbon price leaves it to millions of businesses and consumers to find the most cost-effective ways of reducing carbon pollution (Commonwealth of Australia 2011, p. 22).

The Garnaut Climate Change Review (2008), commissioned by former Prime Minister Kevin Rudd, goes to exceptional lengths to discourage the use of ‘regulatory options’ with the mantra “Don’t pick winners. Fix market failures” (Garnaut 2008, p. 317). The role of the state is to ‘encourage’ businesses to transition their investment to cleaner technologies, but not to interfere directly in the market domain of production. Gillard accepted these parameters for
action, embracing carbon pricing because it unlocks “the genius of the free market” (Gillard 2010). The Multi-Party Climate Change Committee (MPCCC), which she convened as part of a minority-government agreement with The Greens in 2010, considered seven different policy options for addressing climate change – all a form of carbon price. Other possibilities were a priori rejected.

The imminent repeal of the carbon tax makes it timely to re-evaluate forms of climate policy, and to interrogate what the former government’s carbon price scheme was designed to achieve. This thesis undertakes such a project by building on existing literature which has analysed the limitations and inequities of carbon pricing, by situating the policy development of the Australian carbon tax in a political economy of state-environment relations, drawn from the Marxist tradition.

Since 2005 the literature critically analysing carbon pricing schemes from a political-economy perspective has grown substantially. Interest in the subject was roused by the introduction of an ETS in the European Union (EU ETS) in 2005, and, in Australia, by Rudd’s proposal to introduce an ETS in 2010), known as the Carbon Pollution Reduction Scheme (CPRS). The focus of much of this academic literature has been on documenting the outcomes of existing carbon pricing schemes to compare their outcomes with the neoclassical ‘textbook’ version of carbon pricing, thereby illuminating the false assumptions in neoclassical price theory.

Within this scope two approaches have been taken. One, exemplified by authors such as Peter Newell and Matthew Paterson (2010) and Ben Spies-
Butcher (2010), has critiqued carbon trading from the perspective of its ‘policy design’ and suggested ways to tighten regulation, change the governance framework, or make the scheme in question more equitable. The other common approach, characterised in the scholarship of Larry Lohmann (2006; 2010) and Philip Mirowski, Jeremy Walker and Antoinette Abboud (2013) has been to determine that the flaws in these policies are environmentally ineffective, but simultaneously favourable to capital, to the degree that carbon pricing is better characterised as a tool of capital accumulation than as an environmental reform.

It has not been the project of this scholarship to engage explicitly with the state itself as a subject of analysis. But within these two broad camps are two implicit understandings of the state: one that characterises the state as ‘neutral’ in its operations, the other that views the state as an instrument of capital. This author proposes that fuller engagement with the capitalist state as a subject of analysis, one that specifies its agenda, capabilities, structures and relations, would open up a new avenue for critical discussion.

To undertake this task this thesis will draw on the work of James O’Connor (1973; 1984; 1998) who proposed that the state is shaped by its role of facilitating capital accumulation and legitimising the capitalist system (O’Connor 1973; 1984). One of its primary roles is to produce and maintain the conditions of production, namely laborpower, infrastructure and the environment (O’Connor 1998, pp. 125-126). These factors are necessary preconditions for market-based production, but are not, and cannot be, produced on the market. However, the neglect of these conditions of production limits future accumulation possibilities. In the case of the environment, productivity is undermined and
new costs created by the degradation of the quality of air, water and soil (O’Connor 1998, p. 123).

The state’s role is to ensure these general conditions. But the process of doing so is likely to be fraught with difficulty because the contradictory nature of the capitalist system means that different industries have different interests, the short-term needs of the system do not always align with its long-term needs, and ensuring the national competitiveness of the economy may be detrimental to individual blocks of capital (O’Connor 1998, pp. 150-155). In its attempt to juggle these interests the state may become embroiled in pursuing ‘contradictory objectives’. These difficulties are exacerbated by the internal incoherence of the state, which is characterised by divergent bureaucratic interests (Dryzek 1994; Miliband 1973).

This thesis reconceptualises carbon pricing within this framework, through the lens of contradictory state objectives which arise from the state’s attempt to reconcile the opposing needs of the capitalist system. This proposition is explored through a detailed examination of the specific ‘state objectives’ which have shaped the development of climate policy in Australia between the years 2006-2012, eventually culminating in the carbon tax. This is done by drawing on Australian Government policy reports, minutes from the Multi-Party Climate Change Committee (MPCCC) and a senate inquiry into the carbon tax, in addition to historical academic accounts and media reports. Three objectives which have characterised policy discussions over this period are isolated. These objectives are:

1. to contribute to a global project of emissions reduction,
2. to maintain the integrity of the government’s neoliberal growth strategy,

3. and to ensure the national competitiveness of the Australian economy in the international context.

The resolution of all three objectives through a single policy, it is proposed, is unlikely. Like an Escher painting, carbon pricing may succeed in doing this on paper, but in the space and time of the real economy the inherent contradictions cannot be resolved simultaneously.

To fully appreciate the complications the state encounters in attempting to meet these objectives, this thesis further proposes that O’Connor’s theory could be usefully extended to more systematically account for the impact of the transformation of the state under neoliberalism, as well as for the international context in which the state operates. The challenge of climate change is being addressed by policymakers within the constraints of a global, neoliberalised economy. Some scholars of neoliberalism (Miraftab 2004; Osborne & Gaebler 1992) have suggested that the contemporary state has shifted its emphasis from taking direct responsibility for certain provisions or regulatory functions to governing “from a distance” (Grabosky 1995, p. 197).

In the present work, this analysis is applied to the environmental ‘conditions of production’ as a way of conceptualising what is distinctive about carbon pricing as a climate policy. The impact of the state’s neoliberal interventionist approach, and other contradictions that arise through its governance of capitalism, will be explored through an examination of some of the actual and projected outcomes of carbon pricing and other policies on the electricity mix in Australia. It is argued that the neoliberal form of state intervention favours a
continuation of an economic growth regime based on fossil fuels and an emissions-intensive electricity sector, and that despite some growth in renewably-sourced electricity, the contradictions of Australia’s climate policy undermine the possibility of a transition to a low-emissions accumulation regime.

Over four chapters, this thesis will seek to demonstrate the usefulness of a Marxist account of the state to a political-economy of carbon pricing. The first chapter reviews a cross-section of literature from scholars who have contributed to developing theoretical and empirical critiques of carbon pricing, and aims to draw out the relationship between their criticisms of carbon pricing and their understanding of the state. The second chapter develops an alternative framework for understanding the state, and its relationship to the environment vis-à-vis capital, drawn broadly from the work of O’Connor and supplemented by other theorists which highlight the contradictory and fractured nature of the state. The third chapter seeks to identify specific contradictory state objectives which have underpinned the development of carbon price policies in Australia, focusing on the years between 2006-2012. Carbon pricing is framed as an expression of the multiple functions the state adopts in a capitalist system. The final chapter examines the government’s energy policy through the Energy White Paper 2012, and through examples of contradiction that have occurred in the application of a carbon price to the economy, including the case of brown-coal fired power stations in Victoria and black-coal fired power stations in NSW.
CHAPTER 1

Reviewing carbon pricing literature: constructions of the state

This chapter critically reviews a cross-section of literature (spanning the years 2004 – 2013) that addresses the effectiveness of carbon pricing. The review highlights how the state is conceptualised and constructed throughout this literature, and draws out the relationship between this and each scholar’s critique of carbon pricing as a means of reducing global carbon emissions. The literature surveyed has been narrowed down to include only scholarship which contributes to an empirical or theoretical critique of carbon pricing through addressing either taxes or emissions trading schemes (ETSs). Two distinct viewpoints have been identified. The first group has adopted what this author has coined the ‘state-as-neutral’ viewpoint, while the second group adopts what will be referred to as a ‘state-as-capital’ viewpoint.

Naturally, the content and focus of scholarship within each group varies widely. These variances make it particularly useful to clearly articulate and separate out the two distinct viewpoints, and to consider how the chosen viewpoint determines the conclusions drawn by each scholar. Overall, Chapter 1 of this paper demonstrates that the conclusions drawn about the effectiveness of carbon pricing are directly related to each scholar’s viewpoint of the state.
1.1 The state-as-neutral viewpoint

Scholars who adopt a ‘state-as-neutral’ viewpoint broadly embrace the use of carbon pricing as an economic-environmental reform to reduce emissions. In this context, ‘neutral’ infers that the state adopts policies in the interests of, or to represent the wishes of, general society. A neutral state is not driven by ulterior motives or class bias; it exists only to serve its constituents.

Scholars in this group, including Peter Newell and Matthew Paterson (2010), Ben Spies-Butcher (2010), Mark Diesendorf (2008), and Clive Spash and Alex Yo (2012), have all highlighted design-flaws in existing carbon pricing schemes. In many cases they have challenged the neoclassical pricing theory which underpins these policies. Nevertheless they maintain that the policy should be utilised, and would be effective if properly reformed. Associated with this position is a conceptualisation that the state is essentially passive and representative, reflecting the wishes of the people it governs. However, the state is also subject to distorting outside-influences such as lobby group pressures and political corruption.

Newell and Paterson’s book *Climate Capitalism: Global Warming and the Transformation of the Environment* (2010) epitomises this position. They accept an in-principle role for carbon pricing, and attribute problems to specific policy design faults or implementation difficulties: “Emissions trading...has to overcome a number of technical and political barriers in order to operate effectively” (Newell & Paterson 2010, p. 136). They acknowledge that the “actual governance of carbon markets has a number of major inadequacies” (Newell & Paterson 2010, p. 152), such as weak emissions reduction targets and
over-allocation of carbon permits. But these inadequacies are treated as incidental, not systemic. They perceive that government regulation was required to bring carbon markets into existence, and therefore once established, control parameters can be later strengthened. Indeed, Newell and Paterson argue that “there is a certain amount of learning already going on in governance, precisely in response to weaknesses in the way they are currently governed” (2010, p. 152). Therefore, they emphasise problems in governance without analysing or critiquing the forces which encourage bad governance, or the likelihood of overcoming such forces. Overall, they see no inherent impediments to the state reforming carbon-pricing schemes.

The view that the state is capable of designing an effective carbon price scheme, even if existing carbon-pricing schemes are less than adequate, is shared by Bailey (2010), Grubb (2011), Spies-Butcher (2010), Diesendorf (2008), and, in more qualified terms, Stilwell (2011). Reviewing the European Union Emissions Trading Scheme (EU ETS), Bailey posits that, despite evident flaws in the policy, “Conceptually, tightening of the EU ETS regulatory framework and allowance scarcity should produce desired results” (2010, p. 144). Grubb articulates this view very succinctly with the heading “Everyone will learn” (2011, p. 6). The point is made that both governments and industry can expect to gradually move towards improved versions of emissions trading schemes as they learn from past mistakes.

Spies-Butcher, while critical of the idea that carbon pricing is genuinely a low cost policy, advocates:

… a more nuanced approach to policy development that seriously engages with a range of policy options and is sensitive to the political, as well as economic challenges (2010, p. 67).
Similarly Diesendorf, despite criticising the Carbon Pollution Reduction Scheme (CPRS), advocates a six point plan to tackle climate change including, “either a carbon tax that is increased every five years or a comprehensive emissions trading scheme (ETS) with [a] cap that is tightened every five years” (ABC 2008).

Diesendorf argues that a carbon tax may be more resilient to corporate pressure – identifying that it is the forces outside the state which corrupt an otherwise worthwhile policy:

An emissions trading scheme may be the wrong method of applying a carbon price, since it can easily be made ineffective under pressure from vested interests (2009, p. 57).

This argument is echoed by Stilwell (2011, p. 114), who argues that carbon taxes exhibit “closer alignment between the economic and ethical signals” compared to emissions trading schemes, and that they offer fewer opportunities for profiteering off secondary markets associated with offsets. Although Stilwell is clear that both policy options have deep-seated problems, he ultimately favours a tax system because it is less susceptible to market manipulation, but only “once the analytical frame moves beyond the narrow construction of neoclassical theory to a broader political economic perspective” (2011, p. 115). He does not, however, consider whether it is possible for state policy makers to adopt this broader perspective.

Spash and Yo (2012; see also Spash 2009) have engaged more critically with the logic of carbon pricing, and with the Australian carbon tax in particular, but they still maintain an understanding of the state-as-neutral. Precisely because they are so critical of the carbon tax, their proposed solution of a “real”
greenhouse gas tax (2012, p. 81) is rather surprising. In seeking to explain “why [the carbon tax] appears set to be ineffective, highly costly and mainly of financial benefit to big polluters” (Spash & Yo 2012a, p. 68), they do not engage in any analysis of state objectives, but conclude that “Australia exemplifies how the rich and powerful polluters have been able to take control of the debate on human induced climate change” (Spash & Yo 2012a, p. 82). Spash and Yo do recognise, in passing, internal state processes of negotiation which shape policy development. But this is still seen as something imposed on the state by more powerful outside players:

All regulatory and public policy instruments are subject to political negotiation and vested interests. While taxes favour government, they can also be watered down and counterproductive. Substantial concessions to polluting industries in the form of tax exemptions, reductions and rebates…may appear in design proposals (Spash & Yo 2012a, p. 81).

They do not consider that the state may have its own will, with an independent agenda and the means to carry it out. They assert the problem with Australia’s carbon tax is that it is “departing from some of the defining principles of a pollution tax” (Spash & Yo 2012a, p. 81). A “correctly designed” carbon tax, they argue, “could provide more pollution-control-cost certainty than an ETS and have greater capacity for revenue recycling” (Spash & Yo 2012a, p. 81). Spash and Yo do not question whether it is consistent with the agenda of the Australian state to redesign the carbon tax or elevate its revenue-raising capacity.

Overall it can be seen that throughout the abovementioned literature, there is a widespread tendency to identify isolated faults with carbon pricing policies, and argue for policy design improvements, without any, or sufficient,
appreciation for whether the state is capable of, or interested in, reforming the policy in the way these scholars suggest. They identify policy limits according to the criteria of environmental effectiveness and equity, but do not interrogate how the state’s criteria may be shaped by other factors. Chapter 3 of this thesis further explores this point.

1.2 The state-as-capital viewpoint

The second group of theorists, which includes Larry Lohmann (2006; 2010), Philip Mirowski, Jeremy Walker and Antoinette Abboud (2013), Adam Bumpus and Diana Liverman (2008), and Karine Matthews and Matthew Paterson (2005), view carbon pricing as a tool in the state-capital project of creating new sites for capital accumulation and entrenching the inequities of capitalism. The scholarship of this second group echoes sections of the climate movement which have called emissions-trading schemes and offset schemes ‘false solutions’ (see, for example, Rising Tide North America & Carbon Trade Watch n.d.; Friends of the Earth International 2007; Goodman 2009; Bachram 2006).

The class-bias inherent in carbon-pricing is identified in the entrenchment of the legal right of companies to pollute, the displacement of the cost of climate action onto the poor, the working class and the ‘global South’, and in the creation of multibillion-dollar carbon finance markets which provide new avenues to profit from polluting activities.

This second group’s characterisation of the state and state-capital relations is insightful for evaluating some of the more perverse outcomes of carbon price schemes. However it tends to treat capital as entirely hegemonic and shows little appreciation for the conflicts that exist between different fractions, or
industries, within the capitalist class, within the state system, or between the state and capital. The possibility that climate change represents a genuine threat to capital accumulation, and to national economic growth, is overlooked, and carbon pricing is explained as a complicated ruse by capital’s stakeholders to consolidate their power.

Lohmann, for example, calls carbon pricing a “fix” designed “for containing the political threats implied by climate change – while at the same time using it to create new opportunities for corporate profit” (2006, p. 45). He directly blames the United States government, since market mechanisms represent the hegemony of US policy designed for US interests, which were foisted onto the rest of the world at the Kyoto Climate Summit: “The US was also able to impose a language on the climate talks in which objections to neoliberal policies could not be effectively made” (Lohmann 2006, p. 50). According to Lohmann, the essential feature of these neoliberal climate policies is the “entrenchment of corporate power over carbon dumps” (Lohmann 2006, p. 34). A significant shortcoming of Lohmann’s overall narrative is that he does not explain the structural mechanisms which uphold corporate interests. His analysis relies instead on attributing one particular section of capital with an infinite capacity to impose its will.

Mirowski et al. (2013) contribute to this carbon pricing-as-conspiracy theory, arguing it fits into a three part strategy employed by neoliberal ideologues to delay action on climate change. Climate denialism, emissions trading, and geo-engineering schemes appear as “distinct and contradictory policies, [but] are in fact integrated in such a way as to produce eventual capitulation to the free market” (Mirowski et al. 2013, p. 81). According to Mirkwoski et al. climate
denialism allows action to be delayed in the short term, while emissions trading, which “doesn’t work – and was never intended to” (Mirowski et al. 2013, p. 85), is implemented as a medium-term solution, and utopian technology is implemented as a final long term solution. Mirowski et al. claims that the state is a crude tool of the capitalist class, which has a unified, long-term agenda to control climate policy. According to them, the appearance of conflicting or diverging policy solutions advocated by capital is only further proof of the power of capital to control the climate debate.

Bumpus and Liverman (2008) offer a more subtle analysis, but it exhibits the same tendency to emphasise the strengths of capital and ignore any weaknesses. They characterise carbon trading, particularly the offset schemes associated with it, as aiding a process of “Accumulation by Decarbonisation” (Bumpus and Liverman 2008, p. 127). Carbon offsets are:

...a case of neoliberal environmental governance in which the management of an environmental problem is partly devolved to the market and to the individual but in which the state eventually establishes the rules under which markets operate (Bumpus and Liverman 2008, p. 145).

They describe the state’s role as intervening to allocate and secure private property rights, provide scientific knowledge, and create stable market institutions. They show that by implementing carbon pricing schemes, the state aids capital accumulation and polluting industries. This analysis would be strengthened by incorporating a more nuanced understanding of state-capital relations which accounts for conflicting interests.
Matthews and Paterson (2005) add to this perception of the state-as-capital (despite Paterson elsewhere making arguments which would locate him in the state-as-neutral category). They argue that the state’s role is to promote capital accumulation, and in particular to seek out new sites of accumulation. They resolve the apparent paradox of why “states pursue Kyoto and emissions reduction even when the economic costs are significant and the environment benefits minimal” (Matthews & Paterson 2005, p. 62), by recognising that “possible market opportunities [are] created by Kyoto and by emissions reductions” (Matthews & Paterson 2005, p. 62).

Scholars in this second group differ from the first because they do not consider the state to be neutral in its class-orientation. There is, however, significant overlap, because neither tendency ascribes an independent agenda to the state. The first group treats the state as if it has no agenda outside a purely representative one, and theorists underestimate the degree to which it is a capitalist entity. The second group frames the state’s agenda as an extension of capital, but overlooks the way that the incoherent and contradictory nature of capital means that the state cannot represent it in any straightforward way.

### 1.3 Complicating state relations

An overall more sophisticated and multidimensional understanding of the state and its relationship to capital would provide the foundation for a more nuanced theory of carbon pricing, which could explain its faults without caricaturing the ability of capital to shape the climate debate. There are a number of theorists that go some way towards this. I will briefly examine two
theorists - Bond (2012) and Rosewarne (2010) - whose contributions will be elaborated through an original framework in the following chapter.

Bond (2012) accounts for the problems, as well as advantages, that are posed for the capitalist system by climate change and by carbon pricing schemes. Like scholars in the second group, he argues that carbon trading is merely capital accumulation by another name – “accumulation by dispossession” (Bond 2012, p. 688) – which allows capital “penetration of non-market spheres by capital” (Bond 2012, p. 688). However, he also highlights that the environmental, social and financial consequences of carbon trading mean that “deep-seated contradictions in industrial capitalism invariably bubble up into both financial and carbon markets” (Bond 2012, p. 689). Bond provides this analogy of carbon trading:

'It is] at best a shifting of the deck chairs on both the climate and economic Titanics, and at worst...carbon markets...have sprung leaks that are so intimidating, even the US capitalist class has not found a way to patch up the idea of a market solution to a market problem (Bond 2012, p. 689).

Precisely because carbon trading seems ineffective as a tool to reduce emissions, and effective as an avenue for accumulation, the ‘market problem’ of climate change remains. This creates its own problems for the system. But Bond’s contribution is unelaborated, and he does not account for the challenge that this conundrum poses for the state in particular.

Rosewarne’s contribution to the debate goes further than most in recognising the state’s agency and its independent agenda in pricing carbon. He argues that the main rationale for pricing carbon is “a none-too-subtle agenda to sustain
capital accumulation” (Rosewarne 2010, p. 48). Government reports such as the Stern Review and the Garnaut Review are representative of this agenda (Rosewarne 2010, p. 47). The many concessions and financial rewards promised to polluters are not simply the outcome of vested interests, but of the state’s own concern of “not frustrating the growth objective” (Rosewarne 2010, p. 47).

Earlier work by Rosewarne is more explicit regarding the state’s role. Explaining why the Australian government would not sign the Kyoto Protocol, he argues that it was “bound up with the state’s conviction that the key to maintaining the pace of capital accumulation is linked to the future of the resource sector” (Rosewarne 2003, p. 26). The state’s role, this suggests, is to manage long-term economic growth. Rosewarne also asserts that the state needs to be understood as an “arena for progressing different strategic agendas” (2003, p. 2). He contextualises the development of environmental policy within the neoliberal “transformation in the character and role of the state” (2003, p. 19). While the state’s role is to maintain an environment for capital accumulation, the manner in which it sets out to achieve this objective is historically and strategically flexible. There is certainly great potential for valuable analysis involving the application of these insights directly to the current carbon price model in Australia. Rosewarne’s analysis could be further developed to also account for the way in which climate change poses long and short-term threats to a stable regime of capital accumulation.
1.4 Conclusion

This chapter has examined constructions of the state across a number of important critiques of carbon pricing, and suggested that our understanding of the drivers of climate change policy could be enhanced by more clearly articulating state-capital relations. Such an articulation should go beyond identifying the state as a representative body, or as a tool of capital, and account for the myriad of complexities the state faces in formulating a policy aimed at emissions reduction, such as conflicting perspectives of stakeholders within the capitalist class and the state itself, as well as contradictions which arise in the accumulation process.

The following chapters subsequently demonstrate that the state is an active player in maintaining an ailing capitalist system that cannot accommodate environmental concerns. The state empowers capital by approaching the climate crisis on terms set by the market, with a ‘solution’ that promises to offset the market’s exploitation of resources and allow capital to trade its way out of trouble. This therefore creates new sites for capital accumulation, whilst simultaneously deepening and delaying the climate change problem that has the potential to undermine capital, or sections of capital, along with the state’s power and legitimacy. Chapter 2 develops this argument by setting out a Marxist framework for conceptualising state-capital-environment relations.
CHAPTER 2

The state, capital and environment: a Marxist framework

James O’Connor’s essay ‘The Conditions of Production and the Production of Conditions’ (1998) examines the state’s role in managing the environment under capitalism. The basic propositions put forward in his essay provide a useful starting point for developing a dynamic account of the state which goes beyond the scope of those found in the critical literature on carbon pricing. O’Connor’s work has been utilised in this thesis because it illuminates both a) the way environmental damage, brought about through processes of capital accumulation, reacts back on and undermines capital itself and b) the way the complex structures, relations and processes, which make up the state system, shape it as a class-biased state but also render it a victim of its own contradictions. O’Connor’s integration of his theory of the state with his theory of the environment makes his work particularly relevant to the task undertaken in this thesis.

The state’s underlying functions, according to O’Connor, are to maintain the conditions for capital accumulation, and legitimise the system (1973, p. 6; 1984, p. 190). He identifies a relatively sustainable environment as a specific ‘condition of production’ necessary for accumulation (O’Connor 1998, pp. 125-6). As a condition for, and not a product of, a market-economy, the conditions of production must be produced and maintained outside the formal economy in order for industrial exchange-based production to take place. Responsibility over the conditions of production cannot be left to capital itself, because the
anarchic and competitive nature of production means no individual capital will accept the cost burden. This task is therefore the responsibility of the state. But the divergent, and opposing, needs of the capitalist economic system have profound implications for the ability of the state to sustain the conditions for accumulation. The state itself is a contradictory entity, so that it "may undo with one hand what it does with the other" (O’Connor 1998, p. 150). Later chapters in this thesis will argue that the Australian government’s climate policy is a case in point.

Unfortunately to date O’Connor has provided only one short essay which systematically integrates his theories on the state and the environment. A fuller account of state-environment relations will be developed throughout this chapter, drawing on O’Connor’s broader body of writing, and supplemented by the work of some other state-theorists and Marxist ecologists.

The chapter is divided into four parts. The first part outlines the general features of the state - its relative autonomy from capital, its functions in securing accumulation and legitimation, and the costs it incurs through constituting the conditions for accumulation domestically and globally. The second part will examine the environment as a ‘condition of production’ and look at the state’s role in managing these conditions in particular. The third section will explain why the state may fail to adequately produce and reproduce the conditions of production, namely because it finds itself engaged in ‘contradictory state objectives’. The final section will suggest that O’Connor’s framework would be strengthened with two additions: analysing the neoliberal transformation of the state and the impact this has on state-environment relations, and, secondly, accounting for the international system of
states in which each state operates and how this shapes the development of policy.

2.1 General features of the state

In the 1960s and 1970s Marxists turned to the task of defining the precise nature of the relationship of the state to capital (Panitch 1999, p. 20). There was nothing new in the state actively intervening into the economy, but the “scale and pervasiveness of state intervention in contemporary capitalism is now immeasurably greater than ever before” (Miliband 1973, p. 10). The state, it was agreed, is “relatively autonomous” (O’Connor 1998, p. 148; Panitch 1999, p. 22); it is an institution with its own logic that cannot be equated to that of capital, but its autonomy is contingent on the dominant class structures of the economy (Konings 2010, p. 175). The state may be independent from any particular fraction of capital, but this is so it can better serve the interests of the whole system. Institutional separation from production allows the state to manage class conflict, by “channelling the conflicts arising from the real nature of capitalist society into the fetishized forms of the bourgeois political processes” (Holloway & Picciotto 1991, p. 115). Its independence is also necessary to supply “crucial extra-economic preconditions of the circuit of capital that must be secured through an impartial organ standing outside and above the market” (Jessop 1991, p. 169). The state’s role is to cohere capitalism, and to do this it needs to be relatively autonomous from capital.

O’Connor helped pioneer this wave of Marxist state-theory (Panitch 1999, p. 20). His conception, like his contemporaries, was that:
...the state is itself a complex structure of authority relations bearing (perhaps requiring) a certain degree of autonomy, and is by no means a simple instrument for specific capitalists or even capitalists as a whole (Bay Area Kapitalistate Group¹ [BAKG] 1975, p. 149).

Divorced from the most immediate interests of capital, the state can grant some concessions to non-capitalist groups, thereby integrating them into the system. The logic is that “the state preserves the class structure precisely because it becomes in some sense independent of it” (BAKG 1975, p. 154).

The task of ‘preserving the class structure’ is, more precisely, two-fold: the state must aim to secure the conditions of accumulation, and it must act to legitimise capitalism (O’Connor 1973, p. 6; 1984, p. 190). The power of the state lies in its ability to tax, spend and intervene in the economy and society:

…a state that ignores the necessity of assisting the process of capital accumulation risks drying up the source of its own power, the economic surplus production capacity and the taxes drawn from this surplus (O’Connor 1973, p. 6).

For this reason the state is not neutral, but a capitalist state, because its very existence is intimately bound up with the reproduction of the bloc of national-capital it governs. However, by assisting this process of economic expansion, the state risks exposing its class bias and delegitimising its right to rule:

A capitalist state that openly uses its coercive forces to help one class accumulate capital at the expense of other classes loses its legitimacy and hence undermines the basis of its loyalty and support (O’Connor 1973, p. 6).

¹ The Bay Area Kapitalistate Group, of which O’Connor was a member, was an editorial group that produced the journal Kapitalistate. The article quoted is a collaborative work of the group, “the outcome of lengthy discussions” (BAKG 1975, p. 149).

² The first contradiction is a “realization crisis, or crisis of capital over-production” (O’Connor
Therefore, to safeguard the capitalist system and its own existence, the state must manage and disperse class conflicts through a process of legitimation. An example of states fulfilling both these functions is found in the pretexts used by nation-states going to war for resource control. For example, O’Connor notes the use of the “transparently self-serving doctrine of the ‘New World Order’” used by the United States in the 1991 Gulf War as cover for a war aimed at securing future oil supplies (O’Connor 1998, p. 213).

In order to fulfil its functions the state requires a degree of autonomy from capital. Sectional interests organised into ‘interest groups’ may vie for influence in, and attention from, the state, but “interest-group politics is inconsistent with the survival and expansion of capitalism” (O’Connor 1973, p. 67) because this would lead to contradictory policies. “Paradoxically, enduring interest groups require a sense of ‘responsibility’ – that is, class consciousness” (O’Connor 1973, p. 67).

The state must be the highest expression of this class consciousness. One reason for this is that accumulation conditions must be constructed both domestically and internationally. Marx’s oft-repeated characterisation of the state as a ‘committee’ for managing the common affairs of the whole bourgeoisie misses the fact that this bourgeoisie is an international class which spans a system of nation states, which are in vicious competition (Barker 1991, p. 205). Nation-states cannot afford to become too involved in the inter-capital conflicts within their borders; they must project unity in the face of global animosity. When promoting capital accumulation, the state must attempt to project authority beyond its borders to create the global conditions that most benefit the specific needs of its capital, such as forming diplomatic relations and
securing trade contracts for imports and exports. Eliminating ‘hostile’ forces – unaccommodating governments, revolutions, ‘terrorists’ and so forth – is part of fulfilling this function.

Climate change has increasingly been viewed through this lens, as a threat to global accumulation conditions. In 2003 the Pentagon put out a report titled *An Abrupt Climate Change Scenario and its Implications for United States National Security*, which detailed the likelihood of instability in war as a consequence of abrupt climate change (Monthly Review 2004). More recently, John Ackerman (2008), an assistant professor of national security studies at the Alabama Air Command and Staff College, has written a paper comparing climate change to terrorism (the comparison hinging on the ‘non-state’ actors posing the ‘threat’). He argues, “adverse climatological effects may have direct and negative political consequences that threaten local and regional stability and long-term US security” (2008, p. 60). In his opinion, global warming puts the “organization, training, equipping, and planning of the military services” (Ackerman 2008, p. 57) at risk. Climate change threatens food security; will result in more floods, which are the most costly natural disaster in the United States; may exacerbate tensions in “volatile regions of the world” and create more refugees; and result in “unexpected side effects created by international geo-engineering projects designed to alleviate global warming” (Ackerman 2008, p. 64). Climate change has the potential to disrupt, or increase the risks association with the state’s role in securing accumulation conditions.

As the political agent responsible for the reproduction of capital accumulation and social life, locally and globally, the state is subject to competing claims for public funds (Stroshane 1997, p. 115). The accumulation and legitimation
processes both involve significant costs. Costs that assist directly or indirectly in capital accumulation are ‘social investment’, while those that serve only to legitimise the state without benefit to capital are ‘social expenses’ (O’Connor 1973). Social expenses include things such as food-subsidies and some welfare payments. Social investment includes government contributions to research and development programs, upgrades to telecommunications systems or energy infrastructure. These costs run high, with demands for expenditure coming from “corporations, industries, regional and other business interests” (O’Connor 1973, p. 9). O’Connor argues that legitimation is also a costly affair:

Governments may have to not only appear to, but also in fact devise economic and social policies which fulfil working-class/salariat needs whether or not these policies fulfil capitalistic systemic economic and social needs (O’Connor 1984, p. 196).

Securing legitimacy is “the price that the state must pay for political consensus and legitimation” (O’Connor 1981, p. 44). The consequence is a growing fiscal burden on the state. The state becomes engaged in a “dialectical and reciprocal process” in which state expenditures which assist private capital create, in turn, new demands for social expenses “to prevent or remedy the ‘social costs’ of accumulation” (O’Connor 1981, p. 46).

### 2.2 The conditions of production

The state’s role in the reproduction of accumulation and social life can be analysed more deeply. One of the needs of capital accumulation is “the politically guaranteed existence” of the conditions of production (O’Connor 1998, p. 149). The ‘conditions of production’ are those conditions which are necessary for industrial market-based production, but are not themselves
produced on the market. O’Connor divides the conditions of production into three categories, taken from Karl Marx:

...the ‘personal condition’ or human laborpower (‘human capital’), ‘external conditions’ or environment, broadly defined (‘nature capital’), and ‘general communal conditions’ or urban infrastructure and urban space – and, we might add, community insofar as community can be potentially capitalized (‘community capital’) (O’Connor 1998, pp. 125-6).

These can be summarised as laborpower, infrastructure, and the environment.

O’Connor frames these using Polanyi’s concept of ‘fictitious commodities’ to highlight the fact that the production and reproduction of these elements occurs outside the circuit of capital. This contrasts to the myth of a ‘self-regulating’ market, which falsely implies that all goods that enter the productive process are also produced on the market (Polanyi 1944, p. 69). In fact, each of the conditions of production constitutes a precondition for a functioning market, but the market cannot guarantee their availability in the “requisite quantities and qualities and at the right place and time” (O’Connor 1998, p. 147).

‘Environmental’ or ‘external’ conditions fall into two subdivisions: the “natural wealth in means of subsistence” such as edible plants, productive soil or oceans of fish, and “natural wealth in the instruments of labor” such as mineral deposits, waterfalls, and wood (O’Connor 1998, p. 146). These conditions are naturally occurring, and not produced on the market as such. It is evident that, for all the conditions of production, “the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue” (Polanyi 1944, p. 72).
It is not only that capital cannot secure its own conditions of existence, but that left to its own devices capitalism may very well destroy them. As Polanyi says:

> In disposing of a man’s labor power the system would, incidentally, dispose of the physical, psychological, and moral entity ‘man’ attached to that tag...Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted...the power to produce food and raw materials destroyed (Polanyi 1944, p. 73).

It is not in the nature of capital to regulate the limits of its own power to exploit. It is, therefore, the state which must regulate the “access to, use of, and exit from” (O’Connor 1998, p. 148) these conditions of production. O’Connor estimates that all of the state’s domestic functions (fiscal policy and domestic law-and-order aside) can be traced back to the regulation of the production conditions.

The blindly expansionary quality of capitalism – driven by the internal logic of “accumulation for accumulation’s sake” (Kovel 2002, p. 156) – exhibits a limitless capacity to exploit both labour and the environment. This ensures that exchange-value dominates use-value (Kovel 2002, p. 40), and the creation of wealth generates poverty and environmental degradation (Bellamy Foster 1992, p. 78). People “living as capital” (Kovel 2002, p. 39) thus end up destroying the environment: the source of human life.
O’Connor considers this tension between capital’s need for sustainable conditions of production and its tendency to degrade these conditions to be so acute that it constitutes a ‘second contradiction of capitalism’:

...the neglect of education and health (for example), infrastructure, and the natural environment may lead to the impairment of their productive powers, hence, indirectly to the diminution of the productive power of capital, that is, to economic crisis (O’Connor 1998, p. 148).

The toil that production takes on the quality of air, water and land in fact reduces the range of options for future accumulation, makes labour less productive, and produces substantial new costs for the system (O’Connor 1998, p. 123).

O’Connor himself has not offered a detailed breakdown of climate change as a threat to the conditions of production, though he has cited global warming as an example of capital undermining its own conditions, arguing it will “inevitably destroy people, places, and profits, not to speak of other species life” (O’Connor 1998, p. 166). The Stern Review says that climate change threatens “water supply, food production, human health, availability of land, and ecosystems” (Stern 2006, p. 58). It highlights the potential changes to the water cycle, which will “strongly reduce dry-season water supplies to one-sixth of the world’s population” (Stern 2006, p. 56). Only 8 per cent of freshwater is used for “drinking, sanitation, and recreation” directly, while the rest is used to irrigate crops and in manufacturing and energy processes, making water a “critical input for almost all production” (Stern 2006, p. 62). Beyond this, food production is directly threatened by high levels of global warming (low-mid

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2 The first contradiction is a “realization crisis, or crisis of capital over-production” (O’Connor 1991, p. 107).
level rises of 2 – 3°C will also adversely affect crop yield in tropical areas, but may improve crop yield at higher latitudes) (Stern 2006, p. 56, 67). Ocean acidification – another outcome of global warming – may very well reduce fish stocks (Stern 2006, p. 72).

These damages obviously threaten human livelihood. They also threaten the profits of various fractions of capital. Environmental Degradation exacerbates rifts between different sections of capital, since some fractions – real estate, agriculture, fisheries, recreation and tourism, for instance – rely on good quality or highly productive environmental conditions (O’Connor 1973, p. 176). The Intergovernmental Panel on Climate Change (IPCC), for instance, predicted that:

> Multiple industries, such as timber, fisheries, travel, tourism and agriculture are threatened by disturbances caused by climate change. Impacts on these sectors will influence financial markets, insurance companies and large multinational investors (IPCC 2007, p. 257).

The challenge of managing environmental condition is, for the state, therefore also a challenge of managing the tensions inside the capitalist class, as well as of shouldering a further ‘fiscal burden’ as increasing proportions of the state budget are directed to environmental clean up (O’Connor 1973, p. 176). As O’Connor highlights, “Environmental degradation requires huge unproductive outlays of capital for environmental protection and cleanup” (O’Connor 1998, p. 129). This is a cost that private capital strives to avoid.

Environmental degradation, we can see, poses a two-pronged challenge for the state. On the one hand the state must attempt to prevent the worst excesses of
environmental impacts which will destabilise the economy, ruin certain sectors of the economy, produce unintended outcomes, put national food and water security at risk, and damage the health of the working population. On the other hand the state must at the same time find ways to meet the cost of this endless patch-up job.

The nature of the challenge is such that, in the process of acting to secure the conditions for production outside the market, the state confronts what may prove to be insurmountable contradictions. The conditions of production fulfil a definite use-function in the system, but they operate within certain relations of production. They are “produced and reproduced…within definite property, legal, and social relationships” which “may or may not be compatible with the reproduction of these conditions defined as productive forces” (O’Connor 1998, p. 148). As Clarke suggests, the state’s attempt to satisfy the general interest of capital is constantly thwarted, because the general interest does not exist; “All that exists is a particular resolution of conflicting interests” (Clarke 1991, p. 186). Each time the state acts to resolve one conflict it inevitably brings forth new ones, by acting against certain other interests.

2.3 Contradictory state objectives

We have already seen that O’Connor considers the state can confront contradictions when trying to secure accumulation conditions for capital. This applies in a particularly stark form to the conditions of production because of their highly politicised nature (O’Connor 1998, pp. 164-5) and because capital treats them as if they are limitless (Altaver 1993, pp. 219-220). There is no
guarantee that the state will be able to ensure the ongoing viability of capitalism’s conditions. Far from it:

It is possible that capital will impair or destroy its own conditions in systematic ways, and also that the state as presently structured will not be able to rationally defend or reconstruct these conditions (O’Connor 1998, p. 155).

Because capitalist production is characterised by inherent contradictions, conflicts can erupt “between fractions of capital and within the state and civil society, as well as between capital, the state, and civil society” (O’Connor 1998, p. 155). These conflicts may ultimately run too deep for the state to formulate and implement policies which will sustain laborpower, urban infrastructure, and the environment in the long term (O’Connor 1998, p. 155). In attempting to manage these conditions, the state will confront two distinct sets of contradictions:

...contradictions within capital and their implications for state policy; and contradictions within and between state-produced-or-regulated conditions of production themselves (O’Connor 1998, p. 150).

These include conflicting interests between individual capitals and the needs of capital as a whole; conflicting interests between fractions of capital, for instance between big and small capital, low and high-tech capital, and national and international capital; and conflicting interests between the long and short-term needs of capital (O’Connor 1998, pp. 150-1).

Not only are the state’s functions potentially contradictory, but the state is not a cohesive body with a unified agenda. It is “subject to its own internal tendencies and contradictions” (O’Connor 1998, p. 152). As Miliband put it, “‘the state’ is not a thing...it does not, as such, exist” (1973, p. 47). It is, rather, a
series of interacting institutions which are better described as a “state system” (Miliband 1973, p. 47). Conflicts emerge within the state-system between branches with “divergent bureaucratic interests” (O’Connor 1998, p. 152). The bureaucratised state apparatus operates according to deeply entrenched conventions, which underscore policy development processes. These conventions can themselves shape outcomes because “the relationship between means and ends becomes inverted; the nature of the administrative means determines the policy goal or end” (O’Connor 1998, p. 152).

Dryzek (1994) offers a useful breakdown of the limits to the problem-solving capacity of liberal democracy, and of the administrative apparatus of the state. Among them are that liberal democratic governments tend to “identify and disaggregate environmental problems based on the particular interests of affected parties” (Dryzek 1994, p. 180). Ecological problems, for instance, are not approached from the broadest possible ecological standpoint, but from the point of view of a constituent with a claim on the state. Liberal democracy is interested in placating interest groups, not formulating long-term solutions. The Gillard-government’s carbon tax policy is a case in point. On the one hand, a price was put on pollution to address environmental concerns, while on the other hand compensation and free permits were given to emissions-intensive industries and trade-exposed industries to shield these interests groups from the impacts of that price (Commonwealth of Australia 2011, p. 55).

In contrast the administrative state claims to be the “embodiment of common purpose, neutral expertise, the capability to make sense of complex problems, and the will and authority to effect solutions to these problems” (Dyzek 1994, p. 180). But in fact administrative apparatuses are trained to perform only a
limited range of regimented functions (Dryzek 1994, p. 181). Their structures prohibit creative or holistic solutions to complex problems, because hierarchical structures, combined with the division of administrative labour, create an incentive for each sub-unit to find ‘solutions’ to immediate problems that, in reality, displace the problem through space, time, or onto another administrative unit (Dryzek 1994, pp. 181-2).

Contradictions also arise between the timeframe needed to implement policies and the election cycle (O’Connor 1998, p. 151). Elections create an incentive for government to respond to short term problems and offer short term solutions (Dryzek 1994, p. 180). Added to the problems intrinsic to the structures of government and administration is that these structures are populated by individuals who are “themselves political subjects who are constrained by the dominant ideology, the citizenry, and capital itself” (O’Connor 1998, p. 154). These actors are socialised precisely to imagine they are disinterestedly solving problems in the interests of the public good, and to act as if they are external to the world of problems they are employed to fix when in fact they work to maintain the cohesion of a deeply biased system (Konings 2010, p. 178). The anti-democratic nature of bureaucracy, and the practise of finding compromises between the post powerful political players, makes the state “insensitive to environmental and other issues raised from below.” (O’Connor 1998, p. 247).

This is not an exhaustive list of the contradictions that the state must grapple with, but it is sufficient to understand O’Connor’s point: the state is engaged in a multitude of projects, aimed at fulfilling a multitude of requirements, simultaneously. The conflicts and contradictions of the system manifest in the state’s own structures and policies, and the peculiar methods and codes of the
state bureaucracy dominate the processes of problem solving. While managing strong capital accumulation is an overarching priority for the state, capital accumulation is itself contradictory, and acting on this priority is therefore a complicated task, one that is “served…not through an uninterrupted process, but instead through a series of conflicts and confrontations, piecemeal changes and sudden spurts of action” (Mosely [quote] in O’Connor 1998, p. 153). The state will not be able to overcome all of the contradictions it faces at all times.

2.4 Expanding the framework

To expand this analysis, O’Connor’s theory can be extended to account for two more factors: the neoliberal transformation of the state, and the international context in which the state operates. The manner in which the state regulates the conditions of production under neoliberalism deserves its own analysis. O’Connor’s work contains isolated remarks that help to formulate such an analysis. By his admission “*Fiscal Crisis* failed to anticipate the rise of neoliberalism and globalization”, however he also maintains that “the pillars of neoliberalism – privatization, liberalization of foreign exchange markets and investments, deregulation – are all consistent with the analysis in *FCS*” (O’Connor 2001, p. 110). The fundamental difference to the claims originally made in *Fiscal Crisis*, in order to account for a neoliberalised economy, would be that “the contradictions of the system are no longer displaced as frequently into the state and state finances as they are into the sector of small or competitive capital” (2001, p. 111). The result is that:

...the lower one-third or one-half of the U.S. working class suffers impaired conditions of life and real incomes. In other words, the state’s “legitimation function” no longer requires “pay offs” to economic losers...The problem of legitimation has been
transformed into the problem of ‘competitiveness in the global marketplace’ (O’Connor 2001, p. 111).

Here O’Connor introduces some significant new ideas that are not fully integrated into his ecological writings. He proposes that the state does not necessarily have to bear the entire burden of the costs generated through capital’s destructive accumulation process, because the contradictions of the system can be displaced to arenas other than the state. Furthermore the legitimation function of the state no longer necessarily has to costly. This is not because O’Connor accepts the common myth that neoliberalism entails a shrinking state and reduced spending. To the contrary he argues, logically, that the reality of neoliberalism does not fit the model on this point (O’Connor 2001, p. 104; see also Cahill 2009, p. 301). But he acknowledges that there is no fixed way that the state has to go about meeting the costs associated with its various functions.

In ‘The Conditions of Production and the Production of Conditions’ (1998) O’Connor specifies that the state may not directly produce the conditions of production in all cases. The education and health service, and infrastructure such as roads and ports may be carried out publically or privately. The private institution of the family, in addition to the state, is critical to the reproduction and socialisation of laborpower. And environmental conditions are in many cases naturally occurring (such as in the case of mineral deposits) or produced privately (such as private timber plantations, for example). But “whether the production conditions are produced by the state, the family or community, or capital itself, the state invariably regulates their production in direct or indirect ways” (O’Connor 1998, p. 149). It is ultimately the state’s responsibility to maintain or create the conditions under which the conditions of production will be produced and reproduced. Aumeeruddy et al. (cited in O’Connor 1984, pp. 191-
2) explain that “it is...a matter or reproducing not labour-power, but the
conditions of existence of labour-power”. So while the function of the state pertains
to the (re)production of the conditions of production, “the intervention of the
state makes a difference in the form in which those...conditions are provided”
(Pianta [quote], O’Connor 1998, p. 149).

This is a fundamental point, which O’Connor raises to account for the obvious
plurality of forms of state intervention. But there is room here to use the
concept more systematically to capture what is distinctive about the state’s
relationship to the conditions of production under neoliberalism: a neoliberal
state could be thought of as one that remains responsible for the regulation of
the conditions of production, but increasingly ensures only the ‘conditions
under which’ the conditions of production are reproduced, and seeks to
withdraw from directly reproducing these conditions. That is to say that the
state continues to regulate, but reduces its role in directly providing or
producing the workforce, infrastructure and natural resources and carrying out
the rehabilitation of the environment.

This tendency has in fact been recognised by theorists of neoliberalism. The
privatisation and outsourcing of previously in-house state functions is a major
feature of the neoliberal state (Miraftab 2004; Picciotto 2011). This transition has
been described as a shift from the state ‘rowing’ to ‘steering’ (Osborne &
Gaebler 1992; Miraftab 2004, p. 93; Picciotto 2011, p. 91), a process in which
private contractors gradually take over functions previously carried out by
public servants. In relation to the environment, Grabosky describes this
phenomena (in his case favourably) as “governing at a distance” (1995, p. 197).
As later chapters will suggest, carbon pricing is an example of how states are
attempting to ‘steer’ climate policy while refusing to ‘row’ by investing directly in a technological transition.

The other way in which O’Connor’s work could to be extended is to account for the fact that ‘the state’ only exists in an international system of states, which are in competition (Barker 1991). The Bay Area Kapitalistate Group (of which O’Connor is a member) points out that “O’Connor does not consider in depth the international aspects of the state’s role” (BAKG 1975, p. 55). They argue for the need to look at, among other things, the “Contradictory tendencies toward cooperation and competition” between powerful international states, and the “conflict between-national corporations and national interests” (BAKG, p. 155). While some of O’Connor’s later work deals with themes such as imperialist international resource competition (1998, pp. 212-226), there is room to further explore the way the international state system acts as a straitjacket on the policy choices of each state. As was noted earlier, the capitalist class exists as ‘warring brothers’ not only within, but between, nations. When one state intensifies its ability to squeeze extra productivity from its workforce, or accesses new international markets for its exports, or conquers new territory, it generates a competitive response from other states which seek to keep up (Barker 1991, p. 207). Because each state is financially dependent on its national-capital, the force of international competition compels each state to submit to the laws of value, just as any capitalist firm submits before the force of the market.

The neoliberal and international dimensions of the state are intimately linked, because neoliberal policies were employed by all states – though in an uneven fashion (Harvey 2005, p. 87) – in response to a global crisis of capitalism in the 1970s which rendered the old institutions and of capitalism, and patterns of
regulation, unfit for the new needs of the economy (Davidson 2010; Harvey 2005; Dunn, 2012). As Davidson argues, “Neoliberalism represented a choice, but it was a choice increasingly difficult to avoid so long as the goal was the preservation and expansion of capitalism at all costs” (2010, p. 20). While integration of the world economy does not leave states without autonomy, it does mean that “policy re-orientation seems likely to provoke considerable economic and social traumas” (Dunn 2012, p. 247). The international economy acts as an ideological straitjacket on state players, as the need to maintain ‘international competitiveness’ is used to justify the introduction of neoliberal policies.

2.5 Conclusion

In this chapter the capitalist nation-state has been conceptualised as a system of institutions which, removed from the immediate short-term or sector-specific interests of capital, takes responsibility for managing the overall domestic and global conditions for accumulation. This includes maintaining the preconditions for a functioning market: laborpower, infrastructure and environmental conditions. Climate change poses a potential threat to accumulation conditions due, for example, to the costs associated with natural disasters, the risks posed to water and food security, the erosion of infrastructure, and the exacerbation of geopolitical tensions. States would therefore be expected to have an interest in preventing further global warming. O’Connor’s observation that states are drawn into pursuing contradictory objectives because of the incoherence of the capitalist system means that such an expectation is still consistent with state behaviour aimed at securing international fossil fuel resources or the expansion of energy-intensive production.
To add to these observations, the state’s regulation of environmental conditions today takes place in a context in which each state has embraced a neoliberal growth regime in order to advance in the race between international capitals. This has involved, it has been proposed, states reducing their role in the direct responsibility for reproducing the conditions of production. This is likely to intensify the contradictions that accompany managing capital accumulation, because the state is not only trying to manage the contradictions generated by the market, but is using this same market to carry out this management. Conflicts within the state system are also likely to be intensified, as sub-units of the state will be required to redress the unforeseen consequences of the activities of private or corporate entities tasked by the state with reproducing the conditions of production.
CHAPTER 3

The three objectives of climate policy in Australia

2006-2012

This chapter assesses the key objectives which have shaped Australian government deliberations over climate policy, specifically between the years 2006-2012. These years have been chosen because they mark a period in which momentum surrounding the climate debate pushed policymakers towards more serious consideration (and eventual implementation) of climate policies. An examination of key policy documents and department reports shows the recurrence of three key objectives, which this author has characterised as:

1. to contribute to global efforts to reduce emissions,
2. to maintain the integrity of Australia’s neoliberal growth strategy,
3. and to safeguard Australia’s national competitiveness in the global economy.

‘Neoliberal growth strategy’ refers to that set of reforms, institutions and economic policy objectives that have unpinned a global regime of accumulation since the 1980s, including but not limited to: a program of corporatisation and privatisation; wage-restraint and increased exploitation of labour; deregulation/re-regulation; and the dismantling of trade barriers and floating currency (Davidson 2010; Cahill 2012, p. 113). Ideologically, neoliberalism “has

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3 The scope of this chapter could be usefully extended to examine the longer history of climate policy development in Australia, given that “Awareness of the need to reduce greenhouse gas emissions has been on the policy agenda of federal and state governments for a quarter of a century” (Burgmann & Baer 2012, p. 102).
now become the dominant framework through which social and economic policies are made across the capitalist world” (Cahill 2012, p. 120).

Consistent with the account of state-capital relations developed in Chapter 2, each of the three listed objectives serves one overarching objective: to secure strong and sustained accumulation conditions for Australian capitalism. However, as was outlined, it is possible for the state to simultaneously pursue multiple, and potentially incompatible, objectives, each of which individually strengthen prospects for accumulation. This suggests two things: firstly, that reducing emissions is not the only objective, nor necessarily is it the most important one. Indeed, the fact that the carbon price is not designed to reduce domestic emissions in the short term (Treasury 2011, p. 6) suggests a heavily compromised environmental agenda. Secondly, climate policy has been developed according to three independent criteria, which policymakers have tried to make compatible.

What follows is an account of carbon pricing in Australia which differs from the viewpoints of those scholars examined in Chapter 1 of this thesis. Carbon pricing is here explained as the Australian state’s ‘common-sense’ climate policy, not because it is a political ‘fix’, nor because it is an environmentally effective policy, but because in theory it encompasses all the above objectives. This chapter will begin by locating the three objectives in the minutes and reports of the Multi-Party Climate Change Committee (MPCCC), the body that drafted the carbon tax policy. It will then examine the prominence of each objective in policy documents from 2006 onwards.
3.1 Objectives of the carbon tax

Gillard established the MPCCC shortly after the 2010 election, and its composition reflected that of the newly elected minority government, including independents Tony Windsor and Rob Oakeshott, Greens leader Bob Brown, Greens deputy leader Christine Milne, Climate Change Minister Greg Combet, Treasurer Wayne Swan, and the Prime Minister Julia Gillard (Rodgers 2010). The mandate of the committee, set by the Prime Minister, was to “explore options for the introduction of a carbon price” (‘Prime Minister Establishes Climate Change Committee’ 2010). This criterion excluded consideration of policy options outside carbon pricing but was accepted by all participants. In total seven different possible climate policies, all forms of carbon pricing, were considered (MPCCCa 2010). These included ETSs and tax schemes based on energy-intensity levels, consumption, and the production of emissions-intensive goods. But there was no consideration of a policy based on direct government funding or regulation as its key mechanism.

The top principles which guided the MPCCC deliberations contribute to the case that three objectives - global emissions reduction, neoliberalism, and international competitiveness – provide the rationale for carbon pricing. The top four of the MPCCC’s guiding principles were:

1. environmental effectiveness
2. economic efficiency
3. budget neutrality
4. and, competitiveness of Australian industry (MPCCCb 2010).

Regarding the first principle – ‘environmental effectiveness’ – the minutes from the seven meetings show an acceptance of scientific common-sense on the progress and dangers of climate change, as well as a commitment to meeting
Australia’s emissions reduction target “as a Party to the Kyoto Protocol and a signatory to the United Nations Framework Convention on Climate Change” (MPCCCa 2010). ‘Economic efficiency’, the second principle, is a proxy for the neoliberal agenda. The MPCCC makes this clear when it asserts that as part of the economic efficiency principle climate policies must be “consistent with Australia’s broader economic reform agenda” (MPCCCb 2010).

The MPCCC was clear that it “supports Australia’s international objectives and obligations” (MPCCCb 2010). It stated that:

> Cuts in global pollution are necessary to reduce the risks posed by unmitigated climate change...[and] For Australia, these risks are large, threatening our economy...and our way of life (MPCCCb 2010).

In weighing up the relative benefits of different policy options, outcomes such as “certainty over absolute carbon pollution targets” and “incentives for participants to find lower emissions production processes” were considered advantageous, while outcomes such as “does not limit carbon pollution in the near term” and “uncertain abatement outcomes” (MPCCCa 2010) were considered disadvantageous. For example, one of the main disadvantages listed for a consumption based pricing scheme was that it does not provide any incentive for export industries to limit emissions (MPCCCa 2010). An emissions-reduction objective was clearly articulated in the MPCCC’s deliberations.

However, what is also clear from the MPCCC minutes is that the Committee regarded anything that would increase the overall ‘cost’ to the economy as a serious disadvantage. Any extra abatement above and beyond what is strictly
required by Australia’s formal commitment was regarded as an unnecessary expense. For example one of the cited disadvantages of a carbon tax was the ‘fiscal risk’ posed by the government, rather than the market, setting the price:

If a carbon tax rate were set too high, it would divert resources into reducing carbon pollution beyond the level required to meet Australia’s international targets, raising excess revenue and imposing an unnecessary cost on the economy (MPCCCa 2010).

The language of ‘cost’ and the objective of a ‘low-cost’ policy has been used to advocate market solutions as opposed to regulatory ones, because it is asserted that the market is most capable of finding an efficient, and therefore least cost, way to undertake a transition (Garnaut 2008, 2011; Stern 2006). This is an ideological position which ignores the unequal distribution of costs as they are passed down to consumers, capacity-to-pay considerations, and structural disruptions such as flow on effects to wages or job losses caused by industry closures (Spies-Butcher 2010, pp. 61-62). Nor does it account for the substantial transaction costs in administering the policy, supplementary measures, or compensation (Rosewarne 2010). Given this, the contention that market solutions do indeed deliver the lowest cost solution is a position consistent with a ‘neoliberal objective’.

The commitment to this agenda was reflected in the panel of experts asked to advise the committee. The panel included Ross Garnaut, architect of the Garnaut Review 2008, advocate of a privatised electricity system, and “principle economic advisor to Australian Prime Minister R.J.L. Hawke from 1983 to 1985” (MPCCCc) during the years of neoliberal transformation in Australia; Patricia Faulkner, an expert in public-private partnerships (Burgmann & Baer 2012, p. 94); and Rod Sims, also a key player in Australia’s neoliberal transformation (MPCCCc).
Advocates of market mechanisms, including Garnaut and Sims, have used the rationale of ‘low cost’ as the primary justification to promote the use of market mechanisms in place of regulatory policies. In a presentation to the MPCCC, expert advisor Rod Sims concluded his presentation on the ‘Energy Market Outlook’ (2010) by stating:

The logic of introducing a carbon price is that it will meet a given greenhouse gas reduction target at the lowest cost. It follows that as we introduce a carbon price we should allow it to substitute for many other high cost schemes (Sims Outlook 2010, p. 2).

Sims advocated a carbon price to substitute for all other policies. The ‘high cost schemes’ he was referring to were “household solar and wind generation” (Sims 2010, p. 2) which he argued have contributed to a 30 per cent price rises in electricity over four years. Pricing policies should, according to Sims, supersede policies aimed directly at introducing renewables, and the cost, rather than its actual effectiveness in reducing emissions, should be the benchmark for choosing policies.

In addition to an environmental objective and a low-cost/neoliberal objective, the committee was also concerned with how Australia’s actions compare to international action. We have already seen how ‘cost’ is interpreted as the disproportionate cost the Australian economy would bear if it went ahead of international action. At its first meeting the committee requested that the Department of Climate Change and Energy Efficiency (DCCEE) provide a detailed analysis on “action that is being taken on climate change in key international economies” (MPCCCe 2011). The final paper released by the MPCCC emphasised the need to predict and respond to “impacts of emission
mitigation policies in major economies on an industry-by-industry basis” (MPCCCe 2011) and set out its intention to enrol the Productivity Commission to quantify the mitigation policies in the world’s major economies, focusing in particular on the impacts on, and special considerations for, ‘Energy Intensive Trade Exposed’ (EITE) industries. There is clearly a tension here between the committee’s concern for the competitiveness of highly polluting industry, its resolve not to take any action (in terms of expenditure on climate policies) beyond what is strictly necessary within the international context, and its concern to avoid the impact of climate change that will be detrimental to the economy and our ‘way of life’.

3.2 Reducing global emissions

The evidence indicates that policy makers have been aware of, and concerned by, the potential threat that climate change poses to the smooth maintenance of Australian capitalism for some time. Climate change poses risks to Australian infrastructure and private property, water security and the agricultural sector, and will create new costs for the state. The 2010 government report *Adapting to Climate Change in Australia* takes as its premise that “Already Australia faces a stark fact – the opportunity to avoid climate change altogether has passed” (DIICCSRTE 2010, p. 1). The report examines the specific ways climate change will impact Australia. Decreased rainfall, increased frequency and intensity of dry spells and bushfires, and the threat of rising sea levels to coastal cities are some of the dangers and costs being caused by already occurring climate change (DIICCSRTE 2010). The report notes that climate change threatens national infrastructure – the ‘general condition’ of capitalism – and that this creates costs for the system:
...the magnitude of national wealth and critical infrastructure invested in the coastal zone warrants coastal management being given national priority status. Ports, airports, military facilities, as well as residential and other private infrastructure located in vulnerable coastal locations will require increased maintenance in the future (DIICCSRTE 2010, p. 12).

This quote also suggests that private owners of this infrastructure are likely to be put offside, and demand the state spend money to protect their private property. The report goes on to add that:

The Commonwealth has a key interest in ensuring the owners of nationally significant infrastructure ... provide continued and uninterrupted functioning of these assets, which are critical to supporting our national economy (DIICCSRTE 2010, p. 12).

The adaptation report clearly presents climate change as being a threat to the national economy, the state, and private capital.

Government concerns over the impact of climate change on water availability and security saw $12.9 billion invested in a Water for the Future program, in what was called the “single largest investment in climate change adaptation” (DIICCSRTE 2010). The program, to prepare the country for the consequences of climate change, was to establish a ‘Basin Plan’ for water diversion from the Murray-Darling Basin; better forecast and measure water availability; assist farmers in adaptation measures; and investigate potential development of water resources in northern Australia (DSEWPC 2010).

Earlier, in 2006, Howard commissioned a Task Group, chaired by the Secretary of the Department of the Prime Minister and Cabinet, Peter Shergold, “to advise on the nature and design of a workable global emissions trading system in which Australia would be able to participate” (Task Group 2007, p. 1). The
'Shergold report’, as it came to be called, expresses more concern for how climate policy will affect the economy than for how climate change will affect it. Nonetheless it takes as its starting point that:

Australia has a vital interest in the form of any emerging global response. Given our exposure to the impacts of climate change we want an approach that is effective (Task Group 2007, p. 6)

While questioning Australia’s responsibility to contribute to a global response, it also acknowledges that there is a “premium on policies that protect against the most severe impacts” and that consistent with this view Australia should be active in working towards a “comprehensive international framework” to ensure global action is taken (Task Group 2007, p. 15).

The Shergold report was compiled by twelve individuals, including several Secretaries of Department alongside the Chief Executive of Xstrata Coal, the Managing Director of International Power, Director of the Australian Pipeline Trust, Chairman of the Qantas Board, and the Director of BHP Billiton Limited (Task Group 2007, pp. 145-6). That the group was dominated by individuals with interests in the fossil fuel industry is suspect. However, this may also reflect some awareness regarding the threats climate change may pose to their individual sectoral interests.

In 2006, according to Burgmann and Baer, “mainstream attitudes underwent a seismic shift as authoritative scientific pronouncements that human-induced climate change was a considerable problem altered the thinking of large numbers of people” (2012, p. 68). The release of Al Gore’s film An Inconvenient Truth (2006) and the publication of The Stern Review (2006) were symbolic of the mainstreaming of environmentalism. This was accompanied by a change in the
way the problem was framed: from a threat to the environment and humanity to a cost to the economy. Burgmann and Baer explain that:

An important reason for its impact is that the Stern Review approached the problem not from a green agenda but from a profit-oriented cost-benefit analysis. The central message was that ‘The benefit of strong, early action on climate change outweigh the costs.’ Mitigation was ‘a highly productive investment’. It implied strongly that any logical businessperson should favour immediate far-reaching regulation and restraints (2012, p. 11).

This way of framing climate change carried through into the 2007 election. Rudd and Labor increasingly spoke of the need for environmental reform, first and foremost in order to maintain a stable market economy. In Rudd’s first speech in parliament as leader of the opposition he stated:

...when it comes to our Labor values of equity, sustainability and compassion...they are values necessary to enhance the market itself. If we do not take sustainability and climate change seriously, what will happen to the future of the market economy? ...If we do not rescue this planet from itself in terms of the damage being done to it by unrestrained market capitalism, let me tell: you [sic] the entire market system ultimately will fragment (Rudd 2013).

Inside ruling circles there was a growing concern for the cost that climate change posed to the system itself, and this created serious debate regarding the cost of acting on climate change versus the cost of not acting. The consequence of this was that, while climate action became more mainstream and acceptable to business, it also served to legitimise and strengthen the neoliberal constraints that were placed on possible solutions.
3.3 Safeguarding neoliberalism

Chapter 2 suggested that carbon pricing is an example of how, under neoliberalism, states are less frequently engaged directly in providing and maintaining the conditions of production, and increasingly ‘steer’ the private sector to carry out these functions. In both cases the state is intervening into the economy, but the form of its intervention is different. This is consistent with the discourse which has characterised climate policy in Australia. The *Garnaut Climate Change Review* (2008) and the updated *Garnaut Review 2011* are illustrative of this, highlighting the importance that governments “Don’t pick winners” (2008, p. 317). Garnaut is one of the authoritative voices on economic responses to climate change in Australia. His reports were commissioned by the government; and he has worked in government under both parties. His positions are reflective of, and influential on, the views of political and business representatives. Examining his Reviews allows for insight into the broader objectives which are informing the Australian state.

The *Garnaut Review* (2008) specifies that “the primary policy objective must be to meet a specified trajectory of emissions reductions at the lowest possible cost” (Garnaut 2008, p. 310). Cost is the central criterion by which all policy options are compared. The case for mitigation itself is demonstrated with a cost-benefit analysis, which models the impact of non-mitigation compared to mitigation to 550ppm and 450ppm levels of CO₂. This is calculated in GNP terms over the entire 21st century. In the report, cost is measured in aggregate terms, as a ‘cost’ to the national economy, expressed in GNP. The cost referred to, then, is not the cost born by individuals and households, or even the cost born by individual businesses, but the total reduction in growth rate that can be attributed to the chosen policy. Thus a ‘high cost’ policy is defined as one in
which the economy will grow more slowly than it otherwise would. As Guy Pearse points out, “not one credible piece of economic research suggests that making deep cuts in emissions by 2050 would cause even a temporary recession” (Pearse 2009, p. 23). But Garnaut considers it crucial that any climate policy results in “as little disruption as possible and at least cost to the overall economy” (2008, p. 315).

The Garnaut reviews highlight that avoiding costs and securing growth are intimately tied to pursuing neoliberal objectives, including prioritising productivity growth, enforcing flexible labour practices through any transition, and extending the privatisation of the electricity sector (e.g Garnaut 2011, p. 67; Garnaut 2008, p. 468). In his 2011 updated Review, Garnaut dedicates several pages to bemoaning the slowing rate of productivity growth in the Australian economy. This, he says, “is the problematic political context of the climate change policy discussion” (2011, p. xvi). Garnaut is as concerned about the state of the economy as he is about the impact of climate change. Looking back to the 1970s, the lessons to be taken, apparently, are that:

The wonders of the free market, and the inspiration, energy and hard work of the Australian private sector, took businesses to global success that neither politician nor bureaucrat could have picked (2011, p. 67).

Addressing climate change presents a policy dilemma which has the potential to either entrench or disrupt historical neoliberal trends, and Garnaut is determined not to let it be the latter. His take-home point is that we should not make the mistake of being tempted by the ‘regulatory’ option. The Garnaut Review 2011 is, in Garnaut’s own words “a story of how market-based approaches to mitigation can bring out the best in Australians, and a return to regulatory approaches the worst” (2011, pp. xx). He argues that climate action
should be tied to other policies which enhance freedom for capital. One of his specific agendas is to push for the completion of the privatisation of the electricity sector (Garnaut 2008, p. 468). Later in this thesis it will be argued that, in fact, the privatisation of electricity creates barriers to speedy, effective and indeed low-cost climate policy.

The prioritisation of a solution which presents as little cost or disruption to the national economy, and hence safeguards current neoliberal policies and processes, extends beyond the Garnaut reviews, as has already been shown by the MPCCC reports. Similarly the Productivity Commission (2011), which was asked by the MPCCC to prepare the report Carbon Emission Policies in Key Economies explains that it has “interpreted ‘effective’ carbon prices broadly to mean the cost of reducing greenhouse gas emissions” (XIV), and in comparing policies across countries they compare the cost per tonne of abatement. Thus a small amount of abatement at a low unit cost is considered equivalent to, or even better than substantial abatement at a high cost:

Australia’s commitment of resources...was much the same as for South Korea and China. But relative to South Korea, Australia’s suite of measures was much more cost effective and produced proportionately more abatement (Productivity Comission 2011, p. 148).

By this measurement Australia is considered to be doing quite well, because its relative cost of abatement is at the lower end of the scale. The absurdity of this should alert us to contradictions between the two objectives of emissions reduction and neoliberal objectives.
The objectives which lie at the heart of the Garnaut Reviews were also central to the Report of the Task Group on Emissions Trading commissioned by Howard, which similarly argues against a regulatory approach:

> Regulation places a significant impost on business enterprises. Subsidies risk distorting economic decision-making. It is better for the Australian Government to establish a long-term aspirational goal and a trajectory to achieve that goal, establish the framework within which the price of carbon will be set, and then allow the market to respond in the most efficient and effective way to the new settings (Task Group 2007, pp. 8-9).

It is not surprising that the logic underpinning climate policy during the Howard years shares much common ground with Labor’s approach: not only are both parties committed to a neoliberal agenda, but the head of the secretariat for the Shergold Report, Dr Martin Parkinson, played a central role in Treasury in carrying out the economic modeling and advising the government on the carbon tax from a Treasury perspective (Senate Inquiry 2011, p. 2). The bipartisanship alludes to the deep consensus in state politics to pursue the neoliberal objective. It runs far deeper than party divisions. Carbon pricing has been constructed within an ideologically neoliberal framework, and is designed to be structurally compatible with a neoliberal economy.

3.4 International competitiveness: how to be a ‘relatively fast follower’

The third consideration which has shaped climate policy is global competition. The state has competitive advantages it wants to preserve. Thus Howard gave these terms of reference to his Task Group:

> Australia enjoys major competitive advantages through the possession of large reserves of fossil fuels and uranium. …these advantages must be preserved (Task Group 2007, p. 1).
The Shergold report also notes that “Access to low-cost energy is a source of competitive advantage for Australia, contributing to the development of a range of energy-intensive industries” (Task Group 2007, pp. 10-11). According to Pearse, access to fossil fuels and cheap electricity in Australia has underpinned a long-term growth strategy based on commodity exports and attracting investment for energy-intensive production processes, such as metal smelting (2009, p. 25). A desire to provide emissions intensive trade exposed (EITE) industries almost total exemption from the carbon tax (Commonwealth of Australia 2011, p. 55) is indicative of the way these concerns continue to shape the strategy of the Australian state. The Australian government keeps a close eye on electricity prices and is concerned about how high prices will impact business competitiveness (for example, see Rudd ‘The Australian Economy in Transition’ 2013). There is a tension between the government’s policy of putting a price on emissions which has the effect of raising electricity prices, and its desire to keep these prices low (for industry) for national competitiveness.

Because Australia’s ‘competitive advantage’ in coal and cheap electricity is intimately tied to its export industries, maintaining this advantage is contingent on what actions and investment decisions are made by Australia’s trade partners. This means that the Australian state must also, potentially, ‘hedge its bets’ by planning for the possibility that the global economy will shift more decisively on climate change. Treasury spokesperson Dr Martin Parkinson addressed this in a senate committee inquiry into the carbon tax undertaken in 2011:

…our industrial structure…is in fact highly vulnerable to what other countries decide to do. If other countries decide to put
penalties on high-emissions intensive production and we, because
80 per cent of our electricity broadly comes from coal fired power
plants, are selling product that has high-embedded emissions in
it, that will be a threat to our capacity to export (Senate Select
Committee 2011, p. 21).

The consequent difficulties are candidly put by Parkinson, who highlights the
impossibility of dealing with the problem by taking decisive action one way or
the other. Rather he advises that the Australian government position itself as a
‘relatively fast follower’ of international action:

This is a collective action problem. Ultimately, we have to have it
addressed at a global level but, if we do not start, then the
adjustment process for us is bigger and more complex and more
expensive later. So the issue is how to balance starting when you
are not actually the leader. ….so how do we get the balance right
to be a relatively fast follower, to start the process of adjustment in
a measured way and to retain the flexibility to recalibrate in the
light of international developments? (Senate Select Committee
2011, p. 32).

The Australian state, then, must be neither too far ahead of nor behind the major
international players. This speaks directly to the competitive and anarchic
nature of capitalist production, in which, because there is no scope for economic
planning, each state is left to second guess what every other state will do.

The Australian state also has an interest in being at international negotiations to
design a policy which suits its national economic interests, and it may not be in
a position to do this if it is painted as recalcitrant on climate change. The
Shergold report considered the ‘national benefits’ of taking early action on
climate change. These included an improved environment for long-term
investment, a greater influence over emerging international climate solutions,
and greater ability to develop low-emissions technologies (Task Group 2007, p.
The need to attract investment led the report to conclude that business may prefer clear action it can account for, rather than deal with the possibility of unknown action in the future:

Delaying further action in order to safeguard Australia’s competitive advantage will increasingly become a less effective approach if it increases investor uncertainty in the very industries the strategy is designed to assist (Task Group 2007, p. 86).

Investment uncertainty continues to be of great concern to business groups in Australia. A survey conducted by the group ‘Businesses for a Clean Economy’ concluded that business favour for a carbon price was driven by the desire for certainty (B4CE Media Release 2013). It found that 64.7 per cent of respondents supported an emissions trading scheme, 28.8 per cent a fixed price, and only 3.3 per cent said they did not support a carbon price of any variety (B4CE Media Release 2013, p. 2). These figures suggest it is not price certainty (for which a carbon tax would be preferable), but the certainty of having a climate policy, which can then be accommodated to, that is significant for business. This included sectors with strong fossil fuel interests. According to the survey “business supports the need for a long term price signal on carbon to provide confidence in investment decision-making and to enable a transition toward a cleaner economy” (B4CE 2013, p. i).

It is clear that maintaining ‘national competitiveness’ is no straightforward task for the Australian state, as it is highly contingent on international developments. Some considerations pull in the direction of protecting the fossil fuel and cheap electricity ‘advantage’, while others push in the direction of preparing for genuine international climate action by dissociating Australia’s growth from its reliance on fossil fuels.
In response, government policies have been calculated and adjusted to stay in line with international carbon prices. For example, in August 2012 the government announced European Climate Commission had agreed to partially link the Australian ETS to the EU ETS from 2013. In order to facilitate the speeding up of this process, the plan to set floor and ceiling prices – a minimum and maximum price within which the value of carbon permits would fluctuate – would be abandoned from the legislation (SMH 2012). A government Regulatory Impact Statement (DCCEE n.d.) on the proposal for a partial link, lists one of the objectives of linking as “to provide Australian liable entities with secure access to a wider range of credible international emissions units” (DCCEE n.d., p. 3). It states that Australia has a ‘national interest’ in establishing an effective global carbon market because this will “reduce global and Australian abatement costs by ensuring that the cheapest abatement opportunities are pursued first regardless of where in the world they occur” (DCCEE n.d., p. 2). It seems that part of the appeal of carbon pricing for the Australian government is that it is flexible to international developments. It provides an ideal way for governments to minimise the cost burden they assume relative to the rest of the world.

3.5 Conclusion

The Howard government flirted with, and the Rudd and Gillard governments embraced, carbon pricing, in the hope of resolving the conundrum that both climate change and climate policies could pose a threat to the regime of growth in Australian based on a neoliberalised economy and a competitive advantage in cheap fossil fuel energy. The criterion of a ‘low cost’ climate policy, and the insistence that the state’s intervention should be limited to facilitating carbon
markets, reflects the prioritisation of the ‘neoliberal’ objective. Judging climate policy according to the low-cost criteria leads to conclusions which are not environmentally effective, as was seen in the example of the Productivity Commission praising Australia’s low levels of abatement for being cost effective and producing ‘proportionately’ more abatement than other countries. The following chapter will investigate examples of contradictions that have emerged through the implementation of the carbon tax in Australia as a consequence of the objectives outlined in this chapter, and also as a result of the incoherence of the state system itself.
CHAPTER 4

A state of contradiction: climate policy in action

“Australia’s journey towards a lower-emissions economy has begun with the introduction of the carbon price and other supporting measures under the Australian Government’s Clean Energy Future Plan. We must now let our energy and carbon markets operate as intended to determine the nation’s future energy mix…” (Italics added, DRET 2012, p. ix).

This thesis has so far argued that capitalist states pursue contradictory objectives in their attempts to ensure good conditions for accumulation, and that these contradictions are intensified by the neoliberal transformation of state activity and by the impact of global competition. In Chapter 3, these two factors were shown to have shaped the Australian state’s preference for carbon pricing and undermined efforts to avert the negative impacts of climate change on economic growth.

This analysis will now examine the actual outcomes of climate policy on the provision of electricity in Australia since the time the carbon price was introduced (1 July 2012). Electricity generation is a major contributor to carbon emissions with drive global warming. Energy security and the costs of electricity supply are important to national competitiveness for the Australian economy. The history of corporatisation and privatisation of the electricity sector makes it an insightful example of how state-economy relations have shifted under neoliberalism. For these reasons, the electricity sector provides good illustrations of the tensions in state policy responses to climate change. The Energy White Paper 2012 (DRET 2012) is the entry point to an examination of these issues. This analysis will elaborate on the contention proposed in Chapter 2 that the state is not a cohesive body and is in reality a ‘state-system’.
Three examples show that Australia’s climate policy has favoured an accumulation regime based on fossil fuels. Firstly, concern for national competitiveness has driven the government to compensate emissions-intensive trade exposed (EITE) industries, such as brown coal generators in Victoria. This compensation is designed to shield these generators from the real cost of carbon pricing. Secondly, support for the private sector, which will fulfil future energy needs in Australia, has been favoured over the development of renewable energy sources. Bodies such as the Australian Renewable Energy Agency (ARENA) have received token funding (by comparison), which is insufficient to make renewables viable as the primary future fuel source. Thirdly, conflicting capital interests are embodied within the incoherent state system. The NSW-government Treasury campaigned to protect local coal-fired power assets, demanding compensation from the federal government under Gillard for damages associated with the carbon price, and called for the Renewable Energy Target (RET) to be overturned. In each of these cases, the contradictions presented to the state were resolved in favour of the continuation of emissions intensive production.

4.1 An electricity advantage

Electricity generation is fundamental to a modern capitalist economy. It is a ‘general’ condition of capital – one of the three conditions of production identified by O’Connor. As of 2012, three quarters of Australia’s greenhouse gas emissions came from the energy sector. Electricity generation is the “single largest contributor”, responsible for 38 per cent of emissions (DRET 2012, p. 20). Transitioning the electricity sector to generate from renewable sources will be essential to any substantial emissions reduction program in Australia (Garnaut 2011, p. 149). O’Connor highlights that the conflicting needs of a capitalist
economy can manifest “within and between state-produced-or-regulated conditions of production themselves” (O’Connor 1998, p. 150). In the case of electricity, the maintenance of this general condition of production is directly opposed to the maintenance of a stable atmosphere.

This contradiction is expressed in the *Energy White Paper 2012* – a strategic document outlining a four-year energy plan. It outlines three ‘intersecting factors’ which should determine Australia’s energy future:

- the need to deliver secure, reliable and competitively priced energy for a growing population and economy
- the further expansion of our energy exports to Asia and other growth markets
- the need to become more energy efficient across the economy and to dramatically reduce carbon emissions and transform to a clean energy economy

(DRET 2012, p. x).

The White Paper sets out a strategy “to retain our hard-won competitive advantage in reliable and competitively priced energy” (DRET 2012, p. ix). It also argues for the need to supply “competitively priced and reliable supplies of electricity” to industries such as “plastics, chemicals, alumina and steel” (DRET 2012, p. 36).

The reliance of Australia’s growth strategy on cheap energy can be traced back to a convergence in the 1980s of neoliberal reform and an enhanced role for energy exports. The process of lowering trade tariffs was beneficial to the mining sector, since it opened up new avenues for exports (Pearse 2009, p. 25). This coincided with growing international demand for coal in the wake of the 1970s oil shocks (Pearse 2009, p. 25). Australia’s low electricity prices made it well placed to develop industries such as aluminium smelting, which are highly
emissions intensive (Nelson et al. 2012, p. 217). In the early 1990s the Keating government consciously began to exploit the ‘comparative advantage’ in cheap electricity, seeking to attract multinational investors (Pearse 2009, p. 26). These companies tended to produce mainly for export, making them “‘trade exposed’ and sensitive to any increase in electricity prices” (Nelson et al 2012, p. 217). It is evident that emissions intensive electricity production is built into Australia’s national competitiveness agenda. This is reflected in compensation to trade exposed industries to give them “94.5 per cent shielding from the carbon price” (Commonwealth of Australia 2011, p. 55). The CEP also included $300 million of assistance for the steel industry (Commonwealth of Australia 2011, p. 133).

4.2 Compensating capital in Victoria

The Energy White Paper 2012 shows a strong awareness of the threat of accelerating global warming. Alongside this it makes clear its commitment to principles of neoliberalism, which dictate that the market will make decisions about the future direction of investment. This leads it to a counterintuitive position. On the one hand the White Paper notes the ‘expectation’ that the electricity sector’s emissions will reduce by 76 per cent by 2050 (DRET 2012, p. xi). It also acknowledges the problem of ‘lock in’ of capital stock, both in Australia and globally:

The IEA has estimated that around 80% of global carbon dioxide emissions allowable under a scenario that keeps atmospheric greenhouse gas concentrations under 450 parts per million and global warming under 2°C is already locked in through existing capital stock (such as power plants, factories and buildings) (DRET 2012, p. xvii).

But far from concluding that there is a need to prevent further lock in of emissions intensive capital, the report relegates the role of government to
ensure maximum options are available under a “portfolio approach within a well-functioning market-based framework” (DRET 2012, p. xvii). No options, including gas, or carbon capture and storage should be ruled out of consideration (DRET 2012, p. xvii).

The reliance of the energy sector on private capital reinforces the need to maintain a favourable investment climate for business. As the White Paper puts it:

Our ability to deliver investment in a timely and cost-effective way will depend critically on access to finance and capital. Given the relatively small pool of Australian investors with deep experience in greenfield energy investments, it is likely that a significant proportion of the required capital—debt and equity—will need to be sourced from overseas. The footloose and competitive nature of foreign capital means that Australia must maintain attractive and stable investment and policy frameworks (DRET 2012, p. xii).

An ‘attractive and stable investment and policy framework’ is code for deregulated prices and a free-market for electricity. During the 1990s Australia’s electricity market underwent restructuring through the commercialisation, corporatisation and, in some cases, privatisation of electricity assets (Chester 2007, p. 983). The NEM, a wholesale electricity market, was established in December 1998. The OECD and the International Energy Agency (IEA) have cited Australia’s electricity restructuring as a success story and role model for other nations (Chester 2007, p. 981, 995). A government concerned to attract future investment in the industry will want to maintain these ‘good’ international standards.
But what is good for business is not, it turns out, good for the climate. The privatisation of electricity in Victoria has created political and financial obstacles to government climate policy. On September 5 2012 the Minister for Energy and Resources Martin Ferguson announced that the Contracts For Closures program (CFC), originally part of the CEP, would be abandoned. The policy was designed to “support the closure of around 2,000 megawatts of highly emissions-intensive generation capacity in Australia by 2020” (DI 2013) through the government buying out this capacity and closing it down. But having private capital as an intermediary between the government’s climate policy and electricity production has undermined this environmental policy.\(^4\)

The government abandoned the negotiations because “there remains a material gap between the level of compensation generators have sought and what the Government is prepared to pay” (Ferguson 2012).

This material gap was exacerbated by the federal government’s own compensation arrangements under the carbon price. A recent study commissioned by Environment Victoria carried out by Carbon & Energy Markets (CME 2013), concluded that the impacts of government compensation to brown-coal fired power stations in Victoria significantly pushed up the price of buying out these power-stations, and, ironically, the promise of compensation until 2016-7 created a direct financial incentive for the power stations to stay in operation for longer:

Eligible generators will not receive compensation if they close their plant permanently, but will continue to receive compensation if the plant remains available to produce, even if it does not produce. This compensation averages between $120m

\(^4\) The CFC scheme was itself problematic, given it was compensating private owners with tax-payer money to entice them to give up a socially harmful (Courtice 2012). Nevertheless this example highlights the difficulties that would confront the state were it to push for the further phasing out of emissions-intensive industries.
per year for Loy Yang B to $275m per year (for Hazelwood) during the fixed price period. It seems very unlikely that the generators will close permanently and sacrifice receipt of these payments during the fixed price period (CME 2013, p. 23).

Due to an average price rise pass through rate of 111 per cent (reduced down to “a little over 100% after accounting for the cost of emission permits” (CME 2013, p. 3) of the cost of the carbon tax, the study found that Victorian brown coal generators “can expect to accrue additional operating profits somewhere in the range of $2.3bn to $5.4bn (present value) depending on emission prices in future” (CME 2013, p. 5). The lower figure corresponds to a lower carbon price, meaning that the higher the price, the greater the windfall profits for the companies. Contrary to any aim of reducing carbon emissions, the Victorian coal fired power stations have become more profitable under the carbon price package.

This example highlights the way that a neoliberalised state, separated from, but still responsible for, direct control of energy provision struggles with contradictions that emerge between providing favourable conditions for production and simultaneously providing effective climate change policy. An report by the Australian Energy Market Operator (AEMO), commissioned by the DCCEE to explore scenarios of a 100 per cent renewably resourced electricity market made “No consideration... [of the] costs of government policies that that may be needed to drive the transition” (AEMO 2013, p. 9). Yet we have seen that the cost of undertaking even a small part of this transition by closing the oldest, most polluting coal-fired power stations in the country resulted in the federal government abandoning its attempt.
The decision to give such large quantities of compensation to emissions intensive power stations was based on concerns about energy security, and, as outlined by AEMO, the Australian Energy Market Commission (AEMC), and the Investment Reference Group (IRG), securing the investment of private capital is a key energy security concern. The government set aside an Energy Security Fund of $5.5 billion for ‘transitional assistance’ and sought advice on “whether significant energy security risks would arise if a price on carbon emissions...was introduced without providing any financial assistance...to existing, highly emissions intensive, generators during a transitional phase” (Pierce 2011, p. 1).

AEMO and AMEC responded emphasising the risk of adverse flow-on effects throughout the energy market. Rising costs and reduction in asset value for one generator may cause “other market participants [to] become very cautious about continuing to contract with the affected companies until their future financial position becomes clear and more stable” (Pierce 2011, p. 2). The AEMO noted the separate risks of “potential premature departure of high emission plants and/or delay in new investment” that could be associated with price shock from the carbon tax (Zema 2011, p. 2). It further noted that:

In the longer term, it must be recognised that the NEM requires a very large quantity of investment to transform itself away from its present status as the developed world’s most carbon intensive generation fleet. Investor confidence in the Australian energy market is key to attracting the necessary funds and a significant contributor to the cost of capital. If the cost of capital increases due to these factors, not only would consumer prices be higher but there would be a substantive risk that reliability would reduce as a result of delayed investment (Zema 2011, p. 3).
This comment exposes the degree of dependency by government on private capital to invest in future electricity generation and therefore ensure the nation’s future energy security.

IRG was commissioned by the Commonwealth Minister for Resources and Energy to report “on the extent to which policy uncertainty is resulting in delays or sub-optimal investment and the potential implications for energy security and reliability” (IRG 2011, p. 12). The IRG wrote that:

While it may be possible to attract some new investment into the Australian energy sector, it is likely that existing participants will need to play a major role in future investments. The recent New South Wales electricity privatisation process shows the difficulty of attracting new investors …This was seen in heavily discounted asset values, substantially attributable to the expectation of a carbon price being imposed (IRG 2011, p. 7).

It continued by pointing out that:

These investors are mobile and can deploy their capital in many countries, so will seek out investments that best match their risk reward preferences. If the uncertainty about the carbon price in Australia is too great then these investors will take up other opportunities, thereby limiting the availability of financing in Australia and raising the price of the available financing and limiting the quality and capability of the investors (IRG 2011, pp. 7-8).

This highlights the conflict between a rising price actually creating a disincentive for investment in fossil fuels, and the desire of the state to secure investment in the sector. If renewables factor in here at all, it is as an equal ‘competitor’ that needs to be commercially viable and profitable enough to attract the same kind of capital that flows to emissions intensive industries.
4.3 Renewables—profitable yet?

There was some effort by the Rudd and Gillard governments to speed up the rollout of renewable energy through funding bodies ARENA and the Clean Energy Finance Corporation (CEFC), responsible for $3.2 billion and $10 billion respectively, although only half of the latter was strictly for renewable energy (Commonwealth of Australia 2011, p. 64). In addition the RET had already been “legislated to ensure that 20 per cent of Australia’s electricity supply comes from renewable sources by 2020” (Commonwealth of Australia 2011, p. 66).

Even in its renewable energy policies these governments remained oriented to market concerns, and employed a good deal of ‘steering’ and a limited amount of ‘rowing’ of investment in clean technology. ARENA and the CEFC were set up to ‘encourage’ private sector developments, and not to undertake large scale investments, let alone economy-wide planning. ARENA’s objectives are to “improve the competitiveness of renewable energy technologies” and to “increase the supply of renewable energy in Australia” (ARENA 2013, p. 1). But, importantly, it “does not have the resources to fully finance large projects” (ARENA 2013, p. 2). The CEFC, similarly, explains that its role is to “catalyse and leverage an increased flow of funds for the commercialisation and deployment of Australian based renewable energy” (CEFC 2013). The CEFC is not there to fully fund renewable energy, but only to assist private capital to do so.

One of the consequences of this structure for funding renewables was that the large scale solar project Solar Oasis collapsed after ARENA withdrew $60
million of government funding due to the project’s inability to raise sufficient private capital (Edis 2013). The origins of the project go back as far as the 2004 Energy White Paper, which advised the Australian government to “focus on developing new technology breakthroughs that would deliver step-changes in cost or reliability” (Edis 2013). Grants were issued to build and expand prototypes for the project in 2005, 2007, 2010 and 2012, under swiftly changing funding bodies. To get to commercial stage, Solar Oasis required $170 million of capital beyond government funding. The failure of the project to attract sufficient private capital determined its fate. By contrast, OneSteel, a Steel manufacturing company also in Whyalla, received $120 million of the government’s $300 million steel assistance package (Taylor 2011).

The overall consequence of the way these operations have been structured is that while ARENA and the RET have gone some way to encourage the expansion of renewables they have not yet made inroads into reversing the expansion of fossil fuel electricity. The carbon price package has been entirely compatible with this expansion and has had negligible impact on the growth of renewables. The AEMO report into options for a 100 per cent renewable energy grid estimates that

...the cost to build a 100 per cent renewable power system is estimated to be at least $219 to $332 billion, depending on [sic] scenario. In practice, the final figure would be higher, as transition to a renewable power system would occur gradually, with the system being constructed progressively (AEMO 2013, p. 7).

Such costs loom large over the $3.2 billion and $5 billion currently dedicated directly to renewable energy through ARENA and the CEFC. It is clear that neither these bodies, nor the carbon price are designed to drive a full transition to renewable energy.
However, these are not negligible sums of money. Keeping in mind the conflicting needs and interests of capital, and that of the state, it might be that this is a case of the state ‘hedging its bets’ and diversifying its energy capabilities to be prepared for the possibility of international action – the attempt of the Australian state to be a ‘relatively fast follower’ of international action. This would be consistent with the government’s warning that “The world is moving and economies which do not start cleaning up now will fall behind” (Commonwealth of Australia 2011, p. vi). On the other hand, the Australian government might be under pressure from a growing fraction of capital in the renewables sector, or by fossil-fuel capitals who themselves want to ‘hedge their bets’ by diversifying into clean technology. Alternatively, the funding of renewables might be motivated by concern to legitimise the government’s broader climate policy by pointing to outcomes. Answers to these questions would add substantially to an assessment of overall state objectives regarding climate policy. This is an avenue for further research, outside the scope of this thesis.

4.4 A divided state

Having highlighted the impact on state policy from contradictions between conditions of production, there is a final dimension which ought to be considered. O’Connor observed that government bureaucracies are financially tied to strong capital growth, and thus have a structural imperative to ensure strong capital accumulation in order to reproduce their own existence (O’Connor 1973, p. 6). States are internally divided, contain deviating interests, and operate as a fractured incoherent system, rather than as a single entity.
These two observations, combined, lead to a third contention: that the state is structured in such a way that some of its units can align with the agenda of particular fractions of capital. The needs of some capitalist interest groups find allies with certain bureaucratic interests, conflicting with other state objectives.

Australia has a three tiered system of government, made up of the Commonwealth (federal) government in addition to State governments, which represent the separate states and territories, and Local government (councils). The Council of Australian Governments (COAG) is a forum for negotiation between the different levels of government (DFAT 2013). The Commonwealth government is divided into the legislature, executive and judiciary. Within the executive (the administrative arm of government) there are currently 18 departments and over 200 agencies listed (Australian Government Directories 2013). These departments and agencies are not fixed. The Department of Climate Change, for example, was established in 2007 but it was transformed into the Department of Climate Change and Energy Efficiency in 2010, and then merged into the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE) (Clarke 2013). It no longer exists. The Commonwealth Treasury, on the other hand, has been running strong since it was established in January 1901. The state-system, it can be seen, is precisely a series of institutions, united by certain general features and functions, but with highly varied tasks, levels of responsibility, jurisdictions, degree of authority and internal interests. The parochial concerns of state-governments, for instance, will differ from the national focus of the federal government.
In its submission to the Senate’s inquiry into the carbon tax (NSW Treasury 2011), the NSW Treasury expressed strong concerns about the impact of the carbon tax on the Gross State Product (GSP) of NSW, and the flow-on effect this would have on the NSW budget. It predicted a negative impact on GSP, due to a range of factors including: a reduction in dividends from NSW electricity generators, the reduced demand for government services (resulting from their higher costs as the carbon price is passed on), and “via its effects on the general economy, which in turn would affect specific state tax bases” (NSW Treasury 2011, p. 12). The submission claimed that:

Modelling undertaken for the NSW Treasury suggests that at 2030, the reduction in NSW GSP is the greatest of any mainland State, at (-)1.53 per cent. In real terms (after adjusting for inflation), the loss of output in NSW is $3.7 billion a year in 2020 rising to $9.1 billion in 2030” (NSW Treasury 2011, p. 8).

In addition, according to the estimates of Macquarie Generation and Delta Electricity (another government coal corporation in NSW), the NSW budget will suffer “a reduction in total financial distributions (dividends and tax equivalents) of $45 million in 2011-12, $215 million in 2012-13, $150 million in 2013-14 and $290 million in 2014-15” (NSW Treasury 2011, p. 12). Local governments have benefited from the restructuring of the electricity sector not only from yearly dividend payments but also from large additional capital payments. Chester estimated that between 1990 and 2006 “government electricity companies paid their owners at least A$34 billion in dividends, tax equivalents and special payments” (2007, p. 995) and that NSW “received the lion’s share” (2007, p. 995). It is not only the regular payments on dividends that have benefited local government:

In 1996, 2001 and 2003 the NSW government required substantial capital payments from its electricity companies in addition to annual dividend and tax equivalent payments. In 2001, the
amount of equity repaid to the NSW government was A$2410 million (along with A$424.6 million in dividend payments) (Chester 2007, pp. 987-8).

The NSW government has made considerable financial gain out of the restructuring process of its coal fired assets.

Although Macquarie Generation is not yet fully privatised, the process of corporatisation has been a step in this direction and the NSW government is still hoping to complete the sale. Like any firm, Macquarie Generation specifies its key objective is “focused on being a successful business and maximising the net worth of the State’s investment in the Corporation” (Macquarie Generation 2013, p. 3) and explains its intent to provide “The State of New South Wales with a predictable dividend stream and improved Shareholder value” (Macquarie Generation 2013, p. 3). It is state-capital, and as capital it operates for short term competitive gain, irrespective of any broader state agenda (such as environmental reform). As part of its function “to meet the needs of the Shareholders” (i.e. the NSW government) it ensures it will manage “major risks” - its number one risk is listed as “impact of the Carbon price regime” (Macquarie Generation 2013, pp. 3-4).

What is clear is that the NSW government’s concern for its immediate financial needs overshadowed any longer term environmental considerations, and this manifested as a convergence of interests between Macquarie Generation’s internal profit-making interests and the interests of the NSW Treasury, responsible for the government’s finances. Together they lined up to accuse the federal government of a ‘bias’ against Australian public ownership because assistance measures were set at a level too low for NSW coal-fired power
station to be eligible, and they have demanded a comparable share of “transitional assistance” to that given to the private sector (NSW Treasury 2011, p. 14).

Notably, the NSW government was even less tolerant of the RET than it was of the carbon tax, because it judged that the carbon tax could accommodate an expansion of the fossil fuel energy sector, whereas the RET posed a direct threat to the profitability of coal assets. The submission argued that the Renewable Energy Target (RET) – a piece of ‘complimentary’ legislation that mandates that electricity retailers purchase 20 per cent of electricity through renewable sources (DE 2013) – poses a direct threat to the profitability and asset value of NSW government’s coal generators at Vales Point, Bayswater and Liddell (NSW Treasury 2011, p. 6). This led to the NSW government calling for the RET to be scrapped:

Of particular concern to NSW is that the RET has created significant losses of value for NSW Government-owned generators and is expected to lead to even more losses in the future. Non-complementary measures like the RET should be phased out. NSW should seek compensation for these losses, especially in regard to future impacts, subject to additional work assessing the losses of value attributable to the RET (NSW Treasury 2011, p. 6).

NSW Treasurer Mike Baird went as far as to demand that if the RET was not phased out he would consider the option of suing the Federal Government for losses (Ferguson 2011).

The incoherence of the state system is demonstrated by the fact that a state owned corporation is now in direct competition with government renewable
companies that the carbon price and the RET are allegedly supposed to support. Macquarie Generation’s (2011) statement on the impact of the carbon tax states that:

The new carbon price scheme will have serious financial consequences for our business. … We compete in a national market based on our costs and how efficiently we operate the stations. Our competitors include more than 100 power plants in Queensland, NSW, Victoria, South Australia and Tasmania. About 55% of electricity is supplied by black-coal generators, 24% from brown-coal, 15% from gas, 4% from Snowy Hydro and 2% from other renewable sources.

The multiplicity of state interests here is not just a product of partisan politicking. The previous NSW Labor government similarly expressed, though in more muted form, concern about value-loss to its electricity assets. A submission to the CPRS Green Paper by the Rees-Labor government highlighting the possible risk to future investment from industries that “previously invested in good faith” in the absence of ‘adequate’ direct assistance (NSW government n.d., p. 17). Less than a year later Macquarie Generation and Delta Electricity submitted applications to build two new 2000MW power stations at Bayswater and Mount Piper (Kaye 2010). These assessments were granted Concept Approval by the NSW Department of Planning (NSW DPI 2013).

4.5 Conclusion

This chapter has identified that the Australian state’s electricity policy is designed to preserve the competitive benefits that come with access to fossil-fuel resources and cheap electricity; maintain an attractive investment climate for future electricity needs which will primarily be met through the private sector; and develop a limited renewable energy sector and investigate
possibilities for future transition to 100 per cent renewables, but without providing the funds or taking the necessary steps to drive such a transition. The dominance of private capital in energy-intensive production, and the government’s need to appease private capital for its own energy security, saw it compensate emission-intensive electricity generators to the extent that they profited under the Clean Energy Plan. This case strengthens the argument that under neoliberalism, when private capital becomes an intermediary between the state and its maintenance of the conditions of production, the difficulties of regulating these conditions are intensified. These contradictions also emerge out of the state’s own parochial needs and internal tensions. The NSW government campaigned against, and demanded compensation for, the impact of the carbon price on the coal-fired power stations that were one source of its revenue. It is apparent that the structures and needs of the state, as well as the ideology of its policy makers, favour economic growth and the demands of the most powerful fossil fuel players over any policies that could be effective in reversing climate change.
CONCLUSION

Captured in the policy choice of carbon pricing are the contradictory objectives of a capitalist state. The Gillard government hoped that the introduction of a carbon tax would alleviate the “risks to our environment and our economy”, ensure Australia did not “fall behind” international efforts to reduce emissions, and prove to be the “cheapest way to tackle climate change” (Commonwealth of Australia 2011, p. v-vi). This thesis has applied a Marxist framework to argue that the carbon tax is a state-driven reform aimed at achieving all these objectives simultaneously, but they are ultimately irreconcilable. Climate change poses a real threat to the accumulation prospects of the capitalist system, and this has prompted recent Australian governments to invest considerable financial and human resources in researching and preparing mitigation and adaptation strategies. But the need to reduce emissions is, from the state’s perspective, only one need amongst many in its overall project of sustaining the conditions for accumulation. The environmental objective has no priority status within the state’s agenda.

Policy-making discourse within Australia and globally has viewed the challenge of climate change in a ‘cost-benefit’ framework. This perspective gained momentum from 2006 when the Stern Review was published and, in Australia, the Howard government commissioned a report to investigate an ETS. The understanding of climate change as a system ‘cost’ validates O’Connor’s argument that the degradation of the environment poses considerable costs for the system and the state, and this threatens capitalist interests. Within this narrow cost-benefit framework the Australian state
desires a secure and stable climate for economic growth, but it will not sacrifice its neoliberal growth strategy or its fossil fuel advantage to attain it. The Gillard government continued the maintenance of a corporatised and privatised electricity sector, and the preservation of the fossil-fuel export sector. This led it to compensate highly polluting firms in the private sector which were competing with cleaner energy sources, even as it also put funding into the growth of the renewables sector through ARENA and CEFC. The state does, indeed, “undo with one hand what it does with the other” (O’Connor 1998, p. 150).

In developing this perspective this thesis has drawn from literature which interrogates the limits of carbon pricing policies to expose the divergence between neoclassical theory and practice, and has utilised the insights of scholars who argue that carbon pricing is a way for capital to further its own accumulation agenda. Building on this, O’Connor’s (1998) notion that the state is drawn into pursuing contradictory state objectives has been the basis for an account of the state that both explains its capitalist character and remains alert to its divergent, fractured structure, which results in different wings of the state-system sometimes working at cross purposes. This analysis invites a reinterpretation of carbon pricing: neither a good policy ‘in-principle’, nor a blatant attempt by the Australian state to support capital in undermining action on climate change, it is rather an expression of the government wanting to have its cake and eat it too.

Australia’s rulers are aware of the problems this poses. The CEP itself says “As a hot and dry continent, Australia has more to lose from climate change than all
other developed countries” (Commonwealth of Australia 2011, p. vi). At risk is water and food security, east-coast infrastructure, private property and the government’s legitimacy. There are good reasons to take action, from the state’s perspective. Even in trying to strengthen its national competitiveness the government had to weigh its ‘competitive advantage’ in fossil fuels and access to low-cost electricity against other considerations such as how to prepare for the possibility of other states taking climate action, how it could shape global climate policy for its national benefit, and how to create a situation of ‘business certainty’.

This thesis has offered a further theoretical contribution, by arguing that the state’s preference for carbon pricing reflects the neoliberalisation of its relationship to the conditions of production. O’Connor’s (1998, p. 149) delineation between different forms of state intervention provides the basis for this, by identifying the forms with particular historical epochs of capitalism. Under neoliberalism the state increasingly uses the private sector to carry out its functions in its governance of the conditions of production. It continues to manage these conditions, but does so through the market, rather than directly. Carbon pricing in Australia is an example of this. The state has intervened by erecting a complex bureaucratic structure to uphold a new market, within which private players can determine future investment. In theory this will ‘encourage’ business to invest in cleaner energy. In practice business has carried on as before, while the government has pulled funding from at least one large-scale renewable project that could not source sufficient private capital. The neoliberalisation of the state thus appears to intensify the contradictions that confront it and manifest inside it. The overall outcome of these intersecting objectives and structural factors has seen the Australian state pursue an
emissions-intensive accumulation regime. Its attempt to reconcile this with an accumulation strategy which can preserve the environmental condition of production has been unsuccessful.

If the carbon tax is a product of irreconcilable state objectives, as has been argued, then advancing action to reverse carbon pricing and preserve the planet will not be achieved by reforming climate change, but only by challenging these state objectives in order to open up alternative forms of action. The bridge between AEMO’s blueprint for a 100 per cent renewable economy and the creation of such an economy will not come about by unleashing the “genius of the free market” (Gillard 2010) but by challenging its right to rule. Operating in a neoliberalised global economy, the state’s preference for an emissions-intensive accumulation regime is structurally as well as ideologically reinforced. Such a challenge can therefore not be expected to come from within the state itself. But the internal divisions within the state, and the conflicting needs of capitalists, make them vulnerable to pressure from below. A state must maintain not only accumulation conditions but its legitimacy. A successful challenge to the legitimacy of the objectives which underpin the Australian state’s preference for carbon pricing could be the basis for advancing alternative forms of climate action in which capitalism’s contradictions are resolved in favour of a sustainable planet.
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