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Will Victoria really veto lower power prices?

THE AFR VIEW

Why is it that the state with one of the most abysmal records on energy policy; that was caught out by the sudden closure of the Hazelwood coal-fired power station brought about by its own mad and climate virtue-signalling renewable energy target; which it subsequently cried crocodile tears over as jobs were lost and reliability of the energy grid was undermined; now gets an effective veto on the most credible policy for ending the decade-long climate energy wars?

This is essentially what the Victorian government, through its Energy Environment and Climate Change Minister, Lily D'Ambrosio, possesses as she continues to withhold her and Victoria's support for the National Energy Guarantee.

D'Ambrosio is a lifetime Labor apparatchik who proudly proclaims herself to be "a leader in action on climate change, renewable energy and energy efficiency" and was responsible for "Victoria's landmark climate legislation which saw it become the first Australian state to legislate in line with the Paris Agreement for net zero emissions by 2050". Left out of that sparkling biography was the fact the Victoria put an anti-science moratorium on new exploration of onshore gas – previously seen as an important transition fuel from coal to renewables – and is one reason power prices shot through the roof by limiting new domestic supply. Nor included was the fact that Victoria's high renewables target is one of a crazy-quilt set of policies from grasping Labor state governments in thrall to inner-city left-progressives that have driven up energy prices while failing to provide certainty that the lights will stay on.

Tony Abbott is responsible for a least some of the power price pain.

That's presumably why D'Ambrosio's other boast that she "is a leading advocate for a modernised Australian energy system that facilitates a smooth transition into a clean, reliable and affordable energy future" seems to only hold true until Victorian Labor comes up to a state election and runs the risk being targeted by professional disseminators of fake news, GetUp!.

After D'Ambrosio's 'we promise not to promise anything'-type commitment, federal Minister for the Environment and Energy Josh Frydenberg has to take the NEG back to the Coalition party room for approval before kicking it back to the states. If D'Ambrosio represents the craven political interests of Victorian Labor, Tony Abbott is an equally good advocate for his own idiosyncratic political grievances. He seems to have rediscovered climate scepticism since losing the prime ministership, after signing Australia up to the Paris Agreement. He also, let it not be forgotten, increased the renewable energy target – an implicit subsidy to the renewables sector – making him responsible for a least some of the power price pain being felt by Australian households and businesses. Now he wishes to oppose the NEG.

So to dissuade Abbott's fellow travellers and sceptical figures within the Nationals from crossing the floor of the Parliament, as political editor Phillip Coorey reports today, the government will look to buttress the NEG by subsidising new "dispatchable" energy projects that could reliably supply power on demand. This policy, proposed by Australian Competition and Consumer Commission chair Rod Sims last month, would try to encourage investment by having the federal government guarantee to buy supply from new dispatchable energy producers between six and 15 years after project completion.

It would be an effective subsidy for types of electricity generation that can be switched on and off as needed: in practice most likely to be coal and gas generators. It is questionable whether Sims is an appropriate regulator to be recommending this sort of government-led energy market intervention, instead of the new energy super-regulator, the Energy Security Board. Nevertheless, he will brief the Nationals party room on the plan, which the government look sets to adopt to keep the Coalition together.

If it helps get the NEG passed, then it may be worth it, but it looks like yet another interventionist fix to try to correct previous government errors. In the meantime it will only crowd out market-led solutions, and detract from the NEG. And, at the end of all that, the Victorians could still turn around and reject it.

From the Gallery — David Rowe

Political correctness, profit and loss

Corporate speak

Board directors don't work for the government, nor the ASX. They should pursue shareholder interests – even if they aren't about money.

Richard Holden

While the ASX ponders adopting the recommendations of its corporate governance council to update its corporate governance principles, the backlash against a perceived cave-in to political correctness is in full swing.

From conservative commentators to Home Affairs Minister Peter Dutton in remarks to the Samuel Griffith Society, there have been shrieks of outrage at the notion of public companies being forced to "act in a socially responsible manner", avoid "aggressive tax minimisation", and consider the gender identity and cultural background of current and potential employees.

According to these folks this is the post-modern left's final assault in the Millennial-generation culture wars, having already purportedly captured education and public bureaucracies and bending them to their politically correct will.

In light of this narrative it is worth casting our minds back to an influential article written by the great conservative economist and Nobel Laureate Milton Friedman in the *New York Times Magazine* in September 1970, titled *The Social Responsibility of Business is to Increase its Profits*.

Friedman makes the case for why businesses should do just that, and in so doing reminds us that the debate about corporate social responsibility has been going on for a good half-century. Even the language used is similar, although Friedman was a much better writer than some contemporary Australian defenders of the conservative viewpoint.

As he put it, "businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers ... the discussions of the 'social responsibilities of business' are notable for their analytical looseness and lack of rigour. What does it mean to say that 'business' has responsibilities?"

Let's set aside for now the profoundly important issue of diversity and focus on corporate social responsibility. Are we forced to choose between Friedman and Get Up!?

Actually, no. There is a middle ground that is both principled and clear. In a recent article by Nobel Laureate and Harvard professor Oliver Hart and the University of Chicago's Luigi Zingales, these two distinguished economists argue that firms should maximise shareholder welfare not shareholder value. And those two concepts don't always coincide. In fact, they hardly ever do.

The problem is that it's very hard to separate money-making and pro-social activities.

Hart and Zingales point out that plenty of shareholders have ethical and social concerns. And remember that, due to compulsory superannuation, the vast majority of Australians are ultimately shareholders.

Some people buy fuel-efficient cars due to environmental concerns. Some people buy fair trade coffee even though it is more expensive but often not higher quality than other coffee. Still others pay part-time household employees more than they need to because of a belief in a living wage. The list goes on.

In the language of economics these consumers are internalising externalities – factors that are not part of the price mechanism. If they internalise externalities in their private behaviour, surely they want the companies they own as shareholders to do the same?

A Friedmanite retort might be that we should separate money-making and ethical activities. Put a different way, let's make sure that companies make as much money as possible and then shareholders can use those proceeds for whatever do-gooder cause they want.

That's a strong argument, but ultimately not persuasive.

The problem is that it's very hard to separate money-making and pro-social activities. Friedman-style separability requires individual shareholders to have a project, that can be scaled to whatever size is required, which exactly undoes whatever activities that the corporation pursues.

Can individual shareholders really offset their share of the environmental damage from massive mining projects, or questionable labour practices in other countries? That seems like a stretch.

Government regulation takes care of some of these externalities, but certainly not all, and individuals cannot do it by themselves. That leaves us with firms to enact the will of their shareholders.

I do not advocate some kind of Athenian corporate democracy with electronic ballots on every minor issue. But a shareholder vote about some broad principles of company conduct would provide boards and management with guidance about the preferences of the shareholders. The shareholders for whom they ultimately work.

I'm not sure the ASX should be telling directors to be "socially responsible" and I'm not convinced that directors should capitulate to the demands and dictates of the corporate social responsibility movement.

But if their shareholders tell them to be more environmentally conscious and pursue less aggressive tax strategies then they should do so. After all, directors don't work for the ASX, Get Up! or the government. They work for the shareholders, and should represent their interests – which aren't always just about money.

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AFRGA1 A038