

# Bad decision will do Germany a power of good

Axing nuclear power is cynical politics and poor economics. But it will create a world-leading renewables industry

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Germany's decision to close permanently all its nuclear power plants is economically illiterate, politically cynical, environmentally destructive and emotionally self-indulgent. Over a ten to twenty-year period it will make the German economy stronger, the global environment safer and the German people even more arrogant and self-righteous than they already are. These statements may sound paradoxical but they are consistent.

Angela Merkel's panic reaction to the Fukushima disaster, officially confirmed on Monday and quickly condemned around the world, had nothing to do with economic efficiency, responsible environmental stewardship or serious science. It was driven by political expediency.

After the drubbing suffered by her liberal coalition partners in the recent local elections, Ms Merkel, once an outspoken advocate of nuclear power, had only one plausible partner who could keep her office after the 2013 general election: the anti-nuclear Greens. Reversing her previous beliefs and destroying the German nuclear industry was a small price to

pay for the chance to create a conservative-Green coalition.

Beyond political opportunism, the decision had nothing to do with economics or science. Eliminating Germany's most efficient power stations, which at present produce 23 per cent of its electricity, will increase the bills paid by business and household consumers over the next decade by an estimated 30 per cent, or €33 billion a year. Closing nuclear plants will also exacerbate global warming because the share of electricity generated from fossil fuels will rise from 61 to 70 per cent, and because energy-intensive businesses, ranging from bulk chemicals to many aspects of car assembly, will move to countries where electricity is cheaper

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and dirtier, such as Poland or China.

Yet Germany's nuclear U-turn will probably strengthen its economy in the long term and help to wean the world off fossil fuels. For alongside the destruction of its nuclear industry, Germany also committed itself this week to an enormous programme of subsidies and investment in wind, solar and other renewable energy sources. And the Germans are legislating to support the renewable energy sector with substantial electricity surcharges, subsidies, planning reforms and public

research funds designed to double the share of power generated by renewables to 35 per cent by 2020 and much more beyond.

All these interventions may smack of discredited economic concepts such as "picking winners", even socialist central planning. But this is why they are likely to strengthen the renewable energy sector in Germany at the expense of countries where government interference with market forces remains taboo.

Energy supply is an industry where investment returns take decades to materialise, so private companies and investment institutions, responding purely to the financial markets, are unlikely to make decisions consistent with long-term needs. Nor will governments necessarily do any better.

But it often happens that politicians who take economic decisions for cynical short-term motives end up doing more good than harm. By distorting the market in favour of renewable energy sources that are otherwise hopelessly uncompetitive with fossil fuels, the Germans will waste a lot of money and impose significant costs on taxpayers and electricity consumers. But in wasting this money, they will create businesses and technologies that are unlikely to be developed in the US and Britain, where governments feel they have to mimic private sector decisions based purely on financial returns.

And by subsidising investment in renewable technologies, the German Government will accelerate the reduction of costs through mass

production, allowing renewables to displace fossil fuels more quickly around the world.

It would have been better for the world if Germany had directed its subsidies at replacing the 47 per cent of electricity it produces from coal, the dirtiest fuel of all, while retaining nuclear power. But in energy economics, the best is the enemy of the good. Germany's abandonment of nuclear power is unfortunate, but it has no significance from a global

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standpoint, because France, China, South Korea, the US, Britain and Russia will continue to develop nuclear technology. Indeed, China, India and the US are investing large sums in new technologies based on thorium, a safer material than uranium or plutonium, which one day could revolutionise global energy supplies. Meanwhile, Germany's push into renewables will open a new front in the war against fossil fuels.

But even if Germany helps the world by subsidising new technologies, surely it will harm its own economy by burdening it with inefficiencies and extra costs? This is the standard argument against government subsidies used by the British Treasury, for example, to emasculate proposals for a green investment bank.

It is certainly true that the new German policy will impose extra costs on electricity consumers, leaving companies outside the renewable energy sector with a modest competitive disadvantage.

But by the end of the decade, German industry will almost certainly lead the world in renewable energy equipment. The main competition will come from China, where enormous investment programmes in both nuclear and renewable energy are already in full swing, and from Japan, where renewables could enjoy an even bigger boost than in Germany from market-distorting subsidies and investments after Fukushima. Meanwhile, British and American manufacturers will hardly figure in this global competition if market signals, rather than government targets, determine their investment and research.

US industry, for example, despite its access to leading universities and the world's biggest government research budget, cannot invest seriously in renewables because rising electricity prices have been undercut by discoveries of abundant natural gas. A similar process is under way in Britain. The Government believes that carbon capture and storage will be a cheaper way to control emissions than solar, wind, wave or nuclear technologies. Thus market forces encourage Britain to develop new techniques to burn coal, while Germany helps to wean the world off fossil fuels altogether. In terms of long-term potential, I would place my bet on the German approach.