

## SUBMISSION TO GARNAUT CLIMATE CHANGE REVIEW

Dr Greg Smith.  
School of Business, Economics and Public Policy,  
University of New England, Armidale, NSW

Depending upon the extent of estimates of damages associated with climate change there will be a move in Australia to put a price on carbon dioxide emissions. This price will correspond to the negative externality of the climate change damage associated with carbon dioxide emissions. The level at which this price set will be of crucial significance but it is not something this submission comments on directly. This submission is mainly concerned with the related problem of transition.

There is another important question, however, that of how the level of the carbon price is arrived at. A carbon trading regime could be instituted. The problem here is that the formation of a market for carbon dioxide emissions seems to offer endless possibilities for opportunistic profit taking. A tax on carbon dioxide emissions is a more clear cut option. It also has the advantage that the takings come into the hands of a public agency, thereby providing a fund for the pursuit of public investment initiatives which have a crucial role to play in an effective transition.

In an era of surplus budgeting public investment has been underdone. The private sector has had unwarranted access to borrowed funds. Thus a speculative dynamic has been allowed to build up in the property sector at the expense of nation-building infrastructure. There should be no question that governments have a mandate to borrow ( certainly to draw down a surplus budget) to finance investments in productive infrastructure projects. Superannuation funds are sometimes mentioned as a possible source of funds for infrastructure investment. To the extent that a tax on carbon dioxide emissions enables a fund to be established to make transitional investments, there will be less pressure on alternative funding sources.

There is an overwhelming case for public participation in the investment process required to successfully adapt to the exigencies of climate change. We are in the presence of a negative externality which calls for resolute decision making processes if it is to be properly taken into account. Time horizons at 40 years or more are long and well beyond those typical of private sector calculations. A well established and imaginative public investment program has the potential to play a catalytic role in the Australian context drawing out an enhanced response from the private sector.

It needs to be noted that the nuclear option clearly avoids negative externalities associated with carbon dioxide emissions. But the nuclear option generates its own set of negative externalities: hazardous waste disposal, reactor safety, radioactive release etc.

Energy efficiency and renewable options offer the prospect of meeting energy needs without incurring negative externalities ( whether linked to carbon dioxide emissions or nuclear radioactivity). There are profitable opportunities for private sector engagement in this sphere. But the stakes are such that public sector investment is required to play a leading role in increasing the scope and momentum of the energy efficiency / renewable energy investment process.

A stronger commitment to public investment is required in other spheres of the economy as well. There are generic requirements to meet, for instance, transport and housing needs. In these areas there is also significant potential to make gains in energy efficiency and to tap renewable energy sources. Examples are:

- 1 Better integration of the national rail network, with particular focus on the completion of an inland rail route from Melbourne through Parkes to Brisbane.
- 2 Upgrading of public rail transport in Sydney and other cities to significantly increase the proportion of city traffic carried on the system.
- 3 Investment in public housing to improve accessibility and the degree of energy efficiency and use of renewable sources in housing designs.

Looked at in these terms, the outcomes of a climate change inquiry could lead to a significant re-orientation of the Australian economy. Putting a price on carbon will make for difficult adjustments but the transition will be eased if there is a sufficient investment response. The view put here is that the investment response will only be sufficient if the public sector plays an active role. For this to happen some rethinking of current priorities is required.