To:
Garnaut review secretariat

From:
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SUBMISSION

Making a just transition to a sustainable society is an enormous challenge -- analytically and politically. It requires consideration of complex social, economic, political and cultural issues. It requires strong commitment to identify remedial policies and to act accordingly. Otherwise we may face impending disaster.

Sustainability requires the maintenance of biodiversity, ensuring ecological integrity, maintaining the stock of natural capital and providing for intergenerational equity. All such considerations are threatened by climate change. The scientific evidence of the severity of this problem has been cumulative and increasingly consensual. So what is the politics of now seeking to move from an unsustainable situation to a more sustainable set of economic and social arrangements? Is it possible to make this transition in a way that is consistent with concerns about social justice? If that latter concern is not respected then we are unlikely to get the necessary basis for collective action to drive the necessary attitudinal, behavioural and structural changes.

The publication of the *Stern Report* in the UK is illustrative of what is involved here in relation to the economic costs associated with climate change. According to the report, the economic costs of inaction will substantially exceed the economic costs arising from policies to prevent climate change accelerating. So agreement to remedial policy measures makes good economic sense as well as meeting environmental and social needs.

What is to be done? What policy possibilities are on the agenda?

Emissions trading seems to be at the top of the policy agenda at present. The Garnaut review committee seems to have this strong emphasis. Emissions trading has a strong basis in orthodox neoclassical economic theory. According to that theory, if a limit is set upon the total amount of allowable carbon emissions, and permits to pollute up to that limit are issued and traded in the market, the permits will then be acquired by those with the greatest need to pollute and the greatest ability to pay for doing so. Of course, the effectiveness of such a policy depends upon how strictly the limit on acceptable pollution is defined, how vigorously it is policed, whether the initial allocation of permits gives preferential treatment to existing polluters, and the conditions under which the market operates. All these practical considerations can result the application of an idealised neoclassical theory producing a much a muddier outcome in the real world.

An alternative that has been strongly advocated by environmental activists for many years is a *carbon tax*. Our taxation on goods and services is currently centred on a

GST that is levied at 10% across-the-board on most goods and services. A carbon tax, by contrast, would have a differential impact on the price of different goods and services according to the amount of fossil fuel consumed in their production. Products whose manufacture and supply requires the burning of much fossil fuel would become more expensive. Aluminium products are a case in point, because their manufacture involves the use of enormous amounts of electricity, typically produced by burning coal or oil. Proponents of carbon taxes argue that, once such products become heavily taxed, consumers will seek to switch to cheaper, less environmentally-degrading products. Like emissions trading, the economic case for an environmentally-targeted taxation structure such as a carbon tax has its roots in neoclassical economic theory. The implication is that patterns of production and consumption will adjust to changes in market price signals. A strong incentive will be established for seeking and implementing technological changes that involve substitutes for increasingly scarce and non-renewable materials, energy sources and products.

The choice between emissions trading and carbon taxing has been widely discussed in the economics literature. In principle both could achieve the same outcome. The former sets the permitted level of output and allows the market price to vary. The latter policy sets the price and allowed the output to vary, in which case the tax can be adjusted either up or down in order to achieve the desired or acceptable level of carbon emissions.

Both policies have common problems. They are examples of environmental policies that seek to conserve the environment by putting a price on it. 'Selling the environment in order to save it' is indeed a strange principle. It has a narrow 'market logic' that does not recognize the more fundamental problems associated with capitalism as an economic system, and how the extension of markets has created the environmental stresses in the first place. Moreover, such 'environmental fine-tuning' has predictably adverse outcomes from an equity perspective. Wherever the price of environmental goods rises they become less accessible to the poor. In the extreme, access to environmental goods - even to the requirements for life itself - becomes a matter of ability to pay.

The Australian environmental scientist Sharon Beder has written an excellent book, *Environmental Principles and Policies*, that explores some of these problems more deeply. She sets up three environmental protection principles - the sustainability principle, the polluter pays principle, and the precautionary principle. She further identifies three relevant sets of *social* principles - the equity principle, the human rights principle and the participation principle. Assessing economic instruments for pollution control against these six general principles produces some very negative conclusions. Beder shows that economics-based environmental policies simply do not measure up against what is needed. So, if we are to go beyond tinkering with the current economic arrangements, we have to engage in yet more fundamental thinking about new directions in environmental policy. Another prolific Australian author, Ted Trainer, has been arguing an even stronger variant of this view for many years, emphasising the environmental limits to growth that require radical changes in our structures of economic activity, not merely fine-tuning that does not change the underlying orientation towards profit-seeking and relentless economic growth.

*Regulatio*n is an alternative to the market-oriented economic policy instruments that certainly warrants more consideration. Neoclassical economists are always reluctant to embrace regulation because they regard it as less sensitive than market arrangements. But it sends stronger signals and generally produces more predictable outcomes. It is implied in 'cap and trade' emissions trading anyway, to the extent that the 'cap' is set by the regulator. More firmly though, regulation may entail the prohibition of particular environmentally-degrading and hazardous activities altogether. There are obvious precedents here, most obviously in respect of land-use controls whereby particular degrading and uses are prohibited altogether or restricted by 'zoning' to particular localities.

Government expenditure and subsidies also warrant more consideration. Government expenditure encouraging the development and use of more ecologically sustainable *transport* technologies is a case in point. The provision of better infrastructure and public transport services would directly result in lower emissions and less fuel consumption *per cap*ita if usage levels rose as a consequence of the public transport improvements. Installing solar power, and providing the industry policy arrangements necessary for the development and support of other industries producing alternative technologies, are other policies where government expenditure can contribute directly to more ecologically sustainable arrangements. Revenue generated by carbon taxes can be used for this purpose, for example, but so too can the revenues from other personal income and company profit taxes.

Public ownership is a yet more direct aspect of state intervention in the pursuit of ecological sustainability. There is no universal reason why public enterprises should adopt more ecologically sensitive technologies than private enterprises. It all depends on the policy priorities that drive the decision making within those enterprises. However, taking the current issue of electricity privatisation of the state of New South Wales as a case in point, it is clear that prospective shift from public to private ownership would close off policy options. Privately owned energy providers have a direct stake in increasing the demand for their product. What is needed in current circumstances is precisely the opposite. We need electricity to be provided by institutions that will work with customers in order to reduce electricity consumption. From this perspective, public ownership, if not a pre-requisite for the adoption of more ecologically responsible managerial practices, at least keeps open the progressive possibilities.

Finally, of course it is important to recognize that a broader array of social changes are integral to the process of shifting to more ecologically sustainable arrangements in our economy and society. *Information* about the nature of climate change and the impact of different forms of production and consumption is important. *Education*, stressing the nature of the problems and the avenues through which solutions may be achieved, is equally important. Yes, we can all act in more individually and socially responsible ways. And the broader *challenge to consumerism* of as the dominant ideology is something to which we can all personally contribute.

This is a big menu of policy and strategic alternatives. Quite properly, there is much debate over their relative merits. Quite likely we will need to move on all fronts. And very probably that will need to be done on a *global* scale. Indeed, it is at the international scale that some of the most dramatic challenges arise. There are the

problems that result from *uneven development*, requiring more advanced industrialised nations to take a lead because that is a precondition for eventually gaining the cooperation of poorer countries. The latter are understandably more reluctant to embrace policies that they see as likely to slow their rates of economic growth, unless they see yet more vigorous initiatives from the wealthier nations.

Local production for local consumption is a principle that needs particular attention in these circumstances. There is a prodigious use of energy and transport resources in moving products around the world in order to increase the range and variety of products available at particular locations in 'the global supermarket'. This is simply not sustainable. Some aspects of the consumer movement are already starting to give priority to the advantages - including the freshness of produce - of consuming products that are relatively local in origin. The embrace of such a principle also flies in the face of the neoclassical orthodoxy that has underpinned the arguments for free trade and the growth of international free trade agreements. We must surely be coming to the end of this period of neoliberal globalism. Here too the challenges are not just to a dominant economic orthodoxy. They are also to the power and influence or transnational corporations, the World Trade Organisation and the International Monetary Fund and other institutions that are deeply wedded to economic practices that prioritise profit-seeking over deeper societal and ecological concerns.

Australia's contribution to addressing these global concerns is crucial. Quantitatively, Australian consumption, production, energy use and effluents are a tiny part of the global aggregates. But we have a potentially strong leadership role, as a relatively affluent, developed nation with the capacity to be a global exemplar. Simultaneously, as the world's largest coal-exporting nation, we have a particular responsibility to change. The tension between the economic gains from environmentally unsustainable production and exports and the moral imperative to change is striking. A strategy for transition from an unsustainable economy to a sustainable one is imperative. If we can do it, the world would be watching.

Thinking in terms of sustainability requires quite a different mindset. It requires a shift from competitive and individualistic outlooks to co-operative and collectivist behaviours. Action for sustainability, if it is to also embrace social justice, must challenge the dominant political and economic institutions of the current era. Economic and environmental 'fine-tuning' will not suffice.