

## **SUBMISSION TO THE SENATE SELECT COMMITTEE INTO LESSONS TO BE LEARNED IN RELATION TO THE AUSTRALIAN BUSHFIRE SEASON 2019-20**

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### **Background**

My background is in law and economics, and my expertise is in the efficiency and effectiveness of regulatory design in achieving public policy objectives. It is from this perspective that I wish to address the Committee's Terms of Reference – specifically Terms of Reference (d) and (e) which deals with policy options to reduce future bushfire risk.

I have spent a good part of a lengthy career in public policymaking examining market solutions to economic and social problems. And, some time ago, as part of my postgraduate university studies, undertook research thesis into the possibility of applying economic modelling as a means of resolving environmental issues.

### **Policy options to reduce future bushfire risk**

For the general public, the 2019-20 bushfire season was something of a 'wake-up call'. The heat and severity of the fires we experienced were shocking to many of us and brought home to many that this could well become the 'new normal'. Of course, what occurred last summer was entirely in line with what many in the scientific community had been forewarning us about for decades. And, as bad as last year's fire season was, there is ample evidence to suggest that it will not only be regularly repeated, but also that we can expect fire conditions to become even worse in future.

If we are to avert future catastrophic fire events, it is vital to we take decisive and comprehensive action to address climate change. It is my submission to the Committee that the most effective and efficient means to achieve this is via a broad-based, market pricing mechanism. But, let's call it for what it is – a carbon tax.

### **Why a carbon tax will work**

Looked at from an economic perspective, climate change is no different from a raft of other environmental issues that impose unwanted costs on the wider community; only, in the case of climate change, the consequences are far more dire and far-reaching. All the more reason to get on top of it.

A key part of my earlier research centred around possible mechanisms by which to determine a base level value for an environmental resource. This involved coming up with a means of estimating the value to the community at large of an environmental resource if left untouched; as opposed to the value of that resource as an input to the means of production. For example, what value would the community place on a forest if left as a forest, weighed against the value that the timber from that forest might yield if used for, say, housing construction, furniture-making, woodchips for paper manufacture etc?

For centuries, economics has been guilty of ignoring the intrinsic value of environmental resources (probably because the idea seemed all too hard). But there can be no doubt that a forest (or a river, or the air that we breathe) has a value. If this value is ignored as an input cost in our production processes, then that cost will be borne by the community in the form of higher levels of pollution, loss of amenity or forms of environmental degradation.

The idea of setting an inherent value on our environment may strike many as a rather 'rubbery' concept. And, indeed, there is no denying that such a process would involve the exercise of a considerable degree of subjective judgment. However, failure to make the attempt results in significant economic costs being transferred to the wider community. Environmental scientists have been warning us about these for decades and recent experience makes their warnings only too clear.

Nevertheless, the idea of placing an inherent value on our environmental resources is not as far-fetched as might first appear. Economists have long understood the impact that externalities have had on distorting the efficient allocation of economic resources and have sought to correct for these by proposing mechanisms (usually taxes) to incorporate externality costs into production decisions.

An externality is simply a cost born by others outside the production process and which is not incorporated into the price of the end product. Damage to the environment arising from production processes is a classic example of an externality (think Erin Brockovich). We often tend to think of our environment as a 'free resource'. This is because, up to a point, many environmental resources are self-sustaining. However, when environmental resources are utilised beyond sustainable levels, the costs to the community can be considerable. Putting a price on environmental resources is the most efficient and effective mechanism that we have to ensure that our interactions with the environment are proportionate and sustainable.

This brings me to the environmental issue of the moment: climate change. It too is an externality and can be dealt with via the same mechanisms outlined above. Just like other pollutants, carbon emissions impose costs on the community. Higher global temperatures have been linked by scientists to a range of social maladies: extreme weather conditions (droughts, floods, fires etc); rising sea levels; declining crop yields; loss of species; and more. A carbon tax would be an efficient and effective mechanism of internalising these costs and so facilitate a smooth transition to a more sustainable economic (and environmental) equilibrium.

Yes, I appreciate that 'tax' is a word that conjures up negative connotations in the Australian psyche (seemingly, much more so than in other countries). But, in reality, a carbon tax is simply a mechanism to incorporate all costs of production (including those costs borne by the community) into commercial decision-making processes. Put another way, it would remove the implicit subsidy that we currently confer on carbon-based energy sources by ignoring their true environmental/ social costs.

And the idea that a shift away from carbon-based energy sources will be bad for the economy is a furphy. The world economy has previously undergone major shifts in

manufacturing and industrial processes, and each time has emerged more resilient. Our reluctance to let go of old energy technology is holding us back and preventing us from taking full advantage of the economic opportunities presented by a range of emerging energy technologies – technologies for which Australia could be poised to take a market leading position.

### **Conclusion and Recommendation**

Globally, it is now widely accepted that we will need to transition to a more sustainable energy future. The only real question is how best to do this. A carbon tax will help us to make the required transition smoothly and efficiently. By contrast, if we continue to prevaricate and delay, the adjustment process will be much sharper and more painful.

Looked at from this perspective, a carbon tax is nothing to be afraid of. When all costs (including social costs borne by the community) are factored into the price of energy delivery, then the market is able to do its job and an optimal outcome will be achieved. Businesses and households alike will soon shift their consumption decisions in response to the price signal. A carbon tax would simply remove hidden market distortions and level the playing field, so that businesses could make investment decisions that are in the best interests of consumers, the environment and society as a whole.