

ASSISTING HOUSEHOLDS TO MANAGE RISING PRICES

Discussion Starter by Tony Nicholson

Background/Context

Like most major upheavals, climate change will hit the poorest in the community the hardest. From their perspective doing nothing to address this is simply not an option.

Ross Garnaut's interim report, which concluded that cuts to emissions will need to be early and deep, acknowledged that measures to combat climate change hold the potential to also adversely affect the poor.

He's right. They will hurt them in two ways.

The first is through the cost to individuals and families of abatement measures.

Research by the Brotherhood into the financial impact on families of setting a price for carbon as part of an Emissions Trading System found that without compensating policies, emissions trading could be highly socially regressive.

Pricing carbon at \$25 per tonne would add 2.5 percent to the weekly cost of living to the poorest households and potentially push another 206,000 households below the poverty line, defined as 50% of the median income.

And pricing it at \$50 per tonne would add 5.1 percent to those same budgets and potentially push 409,000 more households below the poverty line.

So unless we act, we're in danger of creating a new group of "the climate change poor".

A major problem the poor face is that their use of energy is economically inelastic compared to that of more affluent Australians, meaning they have little capacity to adapt to price increases. Often their jobs and the services they need are not easily accessible by public transport, and they're less able to afford to 'climate-proof' their homes.

We have to make it easier for them.

The second is that the poor will be most at risk in the economic restructuring that will take place.

The lesson lies in Australia's failure to match the economic reforms of the 1970s, '80s and '90s with adequate social policies and human capital investments to help affected communities and individuals adjust. We are still coping with that failure, through high levels of late-middle-age male unemployment, skill shortages in emerging industries and postcodes of poverty in once thriving factory and mining communities.

So we have to think through now the sorts of changes that are coming to communities that rely on farming, coal, timber and old-style manufacturing, and put in place policies to help them adjust.

With demographic pressures set to reduce the pool of available workers further, we can't afford to throw anyone on the scrap heap.

The solution is to make low-income and vulnerable households and communities part of the solution to climate change.

Governments need to undertake urgent action to help low income households reduce their energy use.

And this action needs to be substantially undertaken before a National Emissions Trading Scheme is implemented in 2010.

Policy Directions/Questions

The Brotherhood proposes 4 major policy directions.

(1) Energy Efficiency Assistance Programs

Rising energy costs will mean that energy efficiency will become a bigger factor in estimates of housing affordability. In housing, we believe the community should invest in rebates, grants and low-cost loans to help low-income households purchase energy-efficient appliances and help landlords retrofit rental properties with necessary insulation and other energy and water saving devices, such as gas heating, solar water heating and green plumbing systems. The highest priority has to be assisting low to middle income households in the private rental market.

Schemes are in place in Victoria – through Sustainability Victoria's Environment Task Force program – as well as in other States. These schemes need to be dramatically scaled up and matched by the Commonwealth.

(2) A Transport Plan

In the area of transport, we believe part of the solution may lie in urban planning initiatives so that house low-income housing is closer to public transport, while increasing the availability and quality of public transport services.

(3) A Human Capital Plan

We need a human capital plan to ensure that people trying to get a foothold in the world of work, and those in vulnerable industries and with vulnerable skills, gain the qualifications they need to succeed in a sustainable economy.

(4) The Proper Pricing of Carbon Permits

Of course measures like these will have to be paid for.

To do so, the Brotherhood proposes that emissions permits under the Emissions Trading Scheme should be auctioned and a substantial share of revenue be made available to assist low income private renters reduce their energy use and society adapt to change.

There will be an enormous amount of pressure from affected industries for emissions permits to be free. But this should be resisted, because whether they are free or not, the cost of carbon will inevitably still be passed on to consumers – as happened under the European Union’s ETS.

If climate change is going to be adequately addressed, social equity must be taken into account.

The best way is to help the poor adapt and make them part of the solution, but we can’t afford to be pure about this. Given the substantial amount of work this will take, and some of the long lead times involved, financial compensation will be needed in the transition period to prevent climate change pushing hundreds of thousands of people below the poverty line.

If we do things correctly, the transition to a post-carbon economy can actually create more economic opportunities for disadvantaged Australians, not less. Helping the poor can help solve the climate change problem.

By Tony Nicholson
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This discussion starter has been prepared by Tony Nicholson to stimulate ideas and debate at the Victorian Climate Change Summit. It is not a statement or policy paper by the Victorian Government.