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The G8 leaders meeting in Italy have made an historic agreement to cut greenhouse gas emissions by 80 per cent by 2050. But the problems of climate change can't be solved by international pledges alone.

There is another eco-friendly solution, it's called the individual will and incentive, writes Josh Fear

Avoiding dangerous climate change is the ultimate test of human co-operation. The number of people with a stake in the problem is simply enormous, and the ability of an individual to effect change seems remote. Plus, there's the free-rider problem: individuals (or indeed countries) can rely on the efforts of others without needing to make similar sacrifices.

Nevertheless, co-operative action on climate change is already occurring on a large scale, with millions of people across the world taking voluntary action to reduce their carbon emissions. These people will derive little benefit from doing so, unless virtually everyone else does the same, yet they do it regardless. This is testament to the strength of the co-operative urge, as well as to the esteem in which many people hold the natural environment.

But we can't rely on voluntary action alone to address climate change. Old habits die hard, and the business case for investment in renewable energy has so far been weak.

The alternative, a "selfish" approach, is to align the interests of the environment with the interests of individuals. The conventional way to do this is through price signals, which reward people who act in climate-friendly ways and penalise those who do not. Well-designed price signals also encourage green investment from the business sector.

Unfortunately, the co-operative and selfish modes of problem-solving are not always compatible. Indeed, the Rudd Government's Carbon Pollution Reduction Scheme

(CPRS) in its proposed form may undermine the voluntary action that many Australians are already taking.

One of the central features of the CPRS is a cap on the total amount of greenhouse gas emissions that Australia can generate. What is less well known is that the CPRS will also set a floor below which emissions cannot drop. In issuing a given number of carbon permits, the Government effectively guarantees that the corresponding amount of greenhouse gases will be emitted - no more, no less.

This means that nothing any of us do will make any difference to Australia's emissions. All the actions we are already taking to reduce our carbon footprints - replacing our light bulbs, taking shorter showers, catching the bus to work - will have exactly zero impact on Australia's net emissions.

In fact, under the CPRS, if all Australian households were to reduce their energy use, that would lower the market price for carbon permits, making it easier for big polluters to stay in business. In this perverse situation, the most effective way to encourage the switch to renewable energy will be to use as much electricity and petrol as each of us can afford. Or we could purchase carbon permits on the open market just to rip them up so they can't be used to pollute.

Unless policies are carefully designed, establishing a carbon price could actually result in lower levels of climate-friendly behaviour, particularly if the price is not high enough to offset any reduction in intrinsic motivation to "do something for the environment".

Even more worryingly, as Andrew Reeson from the CSIRO has observed, it appears that changes in the motivational basis for individual behaviour are often unidirectional. Once material factors become the basis for decision-making, it is difficult to recapture intrinsic, or unselfish, motivation. In other words, bad policies - ones that undermine intrinsic motivation - cannot necessarily be reversed.

Voluntary climate action is undoubtedly a good thing; we want it to complement any price-incentive scheme. If individuals, businesses and nation-states are inclined to co-operate with each other in restricting their greenhouse gas emissions, the task of protecting the atmosphere from excessive pollution is much more straightforward.

Some people will respond well to requests for co-operative action, while others will regard it as fundamentally irrational because of the free-rider principle. In developing an effective response to climate change, we must ensure that price incentives (and other "selfish" measures) work in concert with, rather than against, initiatives to promote voluntary action.

A practical way to achieve this is to introduce what the Australia Institute calls a "cap-and-slice" system. All the greenhouse gas emissions saved through voluntary action each year would be tracked. This amount would then be deducted from the national target, rather than being reallocated to other parts of the economy. Under such a

system, Australians could be confident that they are doing their bit and making a difference.

The “cap-and-slice” proposal would allow us to go beyond the Rudd Government's 5 per cent target, and to get closer to the 25-40 per cent reductions that scientists tell us are necessary to avoid dangerous climate change. With so much frustration about the official target, this would provide some measure of community empowerment until 2020, when the target will once again be up for grabs.

Interestingly, the “cap-and-slice” proposal actually resembles the public's perception of how emissions trading works more closely than the CPRS. Three-quarters of respondents to a recent Australia Institute survey said that Australia's total emissions would go down if every household reduced its electricity use. Only 13 per cent gave the answer that corresponds to the CPRS: that Australia's total emissions would stay the same.

At this critical policy juncture, it is worth considering the values underlying our response to climate change. If we are to meet the challenge, we must incorporate both co-operation and self-interest, collectivity and competitiveness.