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TITLE: Power to the people, simply

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Most people when they get back from a week at a tropical resort are usually inclined to want to lead a simpler life. For the planet's sake, let's hope the entourage getting back from the latest round of climate talks in Cancun are also in the mood for simplicity.

What simpler way could there be to compensate householders from any increase in the electricity price associated with introducing a carbon tax than to simply exclude domestic electricity bills from the scheme?

Australia has been talking about introducing a carbon price for nearly twenty years but it is time we actually did it.

The combination of the recent debacle of the carbon pollution reduction scheme (CPRS) and the fragility of the new Parliament means that any proposal that is likely to succeed needs to be simple: simple to explain, simple to design and simple to implement.

It is hard to get simpler than the following proposal.

The first step is to introduce a tax on all major sources of greenhouse gas emissions. The accounting framework to identify and monitor these sources of pollution is already in place.

The second step is to ensure that household electricity bills do not rise. This could be achieved by taking some of the revenue collected from the coal-fired power stations in the first step and providing it to the electricity retail companies to ensure that they had no need to pass on any price rises.

The third step is to provide some compensation to the exporting and import competing industries that are so vocal about the potential impact of a carbon price on their 'competitiveness'.

Leaving aside the fact that exchange rate movements or wage rises are likely to have a far more significant impact on their costs than the introduction of a carbon price there is an argument for providing some compensation to some industries.

However, the trick for the Government with the third step is to impose a rigid cap on the percentage of carbon tax revenue that it will provide as compensation. Such a cap will force the polluters to challenge each other's arguments in the fight to get the most compensation rather than uniting in a fight against taxpayers as they did with the CPRS.

Every day that Australia delays introducing a price on greenhouse gas emissions is a profitable day for the biggest polluters. What we need to do is introduce a pretty good scheme that has lots of flexibility to get better over time. What we need to avoid is getting bogged down in the tedious design detail that brought the CPRS unstuck.

In a political battleground like the climate change debate governments simply can't develop simple policy messages unless the underlying policy itself is quite simple. If the public message tries to gloss over any underlying complexities the policies opponents will simply exploit the ambiguities in order to ensure that the public at large will not support the proposal.

What then could be simpler than introducing a pollution tax that is only paid by big polluters? If the Government is worried about the political impact of a scare campaign based on rising electricity prices, what mechanism could be simpler than exempting domestic electricity customers?

No doubt some will argue that insulating household electricity bills from the impact of a carbon price defeats the whole purpose of such a tax. Such an argument reflects a poor understanding of economics and an even worse understanding of politics.

One of the reasons that economists like carbon taxes is that by driving up the price of electricity it is hoped that consumers will buy less of it. In the past four years the average price of residential electricity has risen by around 50 per cent while the consumer price index (CPI) has risen by only 11 per cent. Those price increases have had nothing to do with the existence of a carbon price.

Put simply, if price changes were going to drive consumer behaviour they would have already done so. Similarly, if the 50 per cent increase that has occurred without a carbon price has not led to behaviour change then putting a bit more on top is not likely to either.

If the Government introduces a simple carbon tax on the biggest polluters and isolates household electricity bills from its introduction they will be able to cut the Gordian Knot that currently binds the big polluters, households worried about the cost of living and segments of the welfare sector who are rightly concerned about energy poverty.

Having done so it will be able to talk clearly and simply to the Australian people about what it plans to do and how those plans will affect them. Back-bench MPs will be able to simply reassure their constituents that unless they are running an aluminium smelter in their back yard then they will not be paying any extra for their electricity.

At the same time those same backbenchers will be able to lobby the Treasurer Wayne Swan about how best to spend the billions of dollars in extra revenue that will flow from the big polluters and into consolidated revenue. More money for health? More money for education? More money for public transport or more money for renewable energy? Wouldn't that be a great meeting to be at.

The best evidence that such an approach can succeed will be the cries of outrage from the big polluters it is designed to affect.

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