

The Australia Institute

Research that matters.

TITLE: The surprise victim of Rudd's carbon scheme

AUTHOR: Richard Denniss

PUBLICATION: New Matilda

PUBLICATION DATE: 07/07/09

LINK: <http://www.tai.org.au/?q=node/9&pubid=2068>

The parlous state of state government coffers is not a new story. But the extent to which they'll be hit by the Rudd Government's Carbon Pollution Reduction Scheme (CPRS) is.

Did you know, for example, that the scheme will impose around \$2.1 billion worth of costs per year on the state governments? And that the Commonwealth has no intention of providing compensation, despite the largesse being afforded to big business.

What has not been made clear to the electorate during the CPRS debate is that every dollar that is given to the big polluters is a dollar that will come from the health and education budgets of the state governments.

Here is how it works. The Rudd Government's CPRS is the first comprehensive national attempt to tackle climate change. That's good. In putting a price on carbon pollution the price of coal fired electricity will go up. That's good too. In order to help offset the impact of the higher electricity prices the Rudd Government will give all of the revenue it makes from selling the right to pollute back as compensation. That's bad. And along the way it will neglect to give similar compensation to the states. That's appalling.

But why should the state governments get compensation I hear you ask? Simple really; state governments spend a lot of money on energy running things as diverse as air conditioners in schools to tram lines in cities. Under the proposed CPRS, the state governments will be required to buy pollution permits from the Commonwealth, which will drive up their electricity bills. While this leaves the Rudd Government with more money to give to the polluters, unfortunately it leaves the state governments with less money to spend on teachers and nurses.

So why aren't the state premiers following the lead of the big polluters and demanding money to protect their citizens? Unfortunately, that's the billion dollar question that state opposition parties are yet to ask.

There is no doubt that the state premiers and treasurers are aware of these costs. Late last year The Australia Institute published a report highlighting the direct costs of the CPRS for state and local governments. Earlier this year a report by Access Economics, commissioned by the state governments themselves, confirmed our findings. According to Access Economics the cost to the state governments of the CPRS would be more than \$2.1 billion per year, with the biggest increase in costs being in the provision of health services.

But that is just the tip of the iceberg. Apart from literally taxing the state governments, the Rudd Government's approach to climate change ensures that while all the revenue raising is done by the Commonwealth, all the big new spending must be undertaken by the states.

Responding to climate change involves 'mitigation', which means trying to reduce emissions in order to avoid dangerous climate change and 'adaptation', which means investing in new forms of infrastructure and services to help cope with the change that we cannot avoid. Unfortunately for the state governments, the way that the Rudd Government has divvied up these responsibilities ensures that the less effort the Commonwealth puts into avoiding climate change the more money the states will have to spend adapting to it.

That is, if the Rudd Government locks us into dangerous climate change by setting low emission reduction targets, the amount the states will need to spend to protect their roads from sea level rise and their elderly from heat waves will increase exponentially. Similarly, the more money the Rudd Government spends buying the support of the big polluters, the less money it has left to help the states provide the services their citizens will need.

It is hard to imagine a scheme that is less fair than the CPRS. The Commonwealth collects the revenue and the states do the spending. The polluters get compensation and those dependent on the public health and education systems get nothing.

Of course tackling climate change doesn't need to be so unfair. With the legislation delayed in the Senate, the state premiers have an opportunity to try and redress the imbalance.

It would appear that they have four options. They can demand that the Rudd Government divert money away from the greedy polluters and toward the provision of essential services by the states. The second, is to significantly increase state taxes. And the third option is to provide lower quality services.

The final option is of course to keep their heads in the sand and hope that they are not still in office when the costs of the CPRS come home to roost.

Only time will tell which way the hollow men suggest they jump.

Dr Richard Denniss is Executive Director of The Australia Institute, a Canberra based think tank. www.tai.org.au