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***Carrots not Sticks:
Rethinking Global Approaches to Climate Change
(Lessons from my Mother's garden)***

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Introduction: Carrots Not Sticks

The strongest lessons in life are sometimes the earliest.

As I grew up on the Mornington Peninsula my mother, Tinka, taught me about carrots and sticks. And she taught me through remembrance of her own childhood.

While my mother, Tinka, was a small girl herself, her own mother, my grandmother Phyllis, was always looking for help in raking the garden.

Sometimes there were threats. But these were almost always followed by a silent sit-in protest under the oak tree in the garden of their house in Central Victoria.

Sometimes there were encouragements. Little promises of pocket money or rewards for work. And these were mostly met with positive responses, although of course, not always. Every child has to retain their dignity!

Perhaps not surprisingly, as a child I responded more favourably myself to incentives rather than punishment. And now a third generation, in the form of my own 6 year old daughter Poppy, seems to have inherited the same gene pool and has perfected the art of the sit-in when under threat.

But this pattern of positive response to incentive and negative response to threat is not confined to children. It plays itself out in the world of adults, of businesses and of nations.

Indeed, **when it comes to climate change**, in a world of competing businesses and nations characterised by portability of investment, **it is increasingly clear that rather than being sources of progress, regimes based on punishment are being resisted. Punitive approaches have increasingly become impediments to effective national and international climate action.**

Laws are of course fundamental to all societies, but the most effective societies and communities are, in my view, marked by a culture of incentive and aspiration. And this is a source of hope not despair.

This brings me to both the global debate and the domestic debate regarding approaches to climate change over the coming decade and beyond. And in particular the carbon tax announced yesterday, with its focus on punishing Australians rather than encouraging Australians.

Let me begin with a simple question: How can it help the world, and how can it help Australians, if on yesterday's figures, **the cost of a new Australian house will increase by over \$5,000 as a result of the carbon tax?**

Points of Agreement

Let us then set the terms for this debate by understanding where there is agreement and where there is disagreement.

Australia and the world face a genuine challenge to arrest the growth of CO₂ and other greenhouse gas emissions.

In my view it is real, it is pressing and it is important.

On that there is agreement between the two sides of politics, although it should be recognised that many Australians take a different view to the major parties.

Nor is there disagreement over the targets.

Our commitment to the 5% reduction on Australia's emissions is the same as the Government's.

The Government wants this to be a debate about belief and about targets because it is afraid of a debate about two plans: Direct action using the market for lowest cost abatement or an enormous electricity and grocery tax as the means to achieve the same objective. In the end though:

- It is not a debate about belief.
- It is not a debate about targets.
- It is a debate about the costs to the economy and the costs to individuals of taxes versus incentives when no other country is imposing a comparable electricity-based tax.

It is a debate about the right system for the right time in history, under the right circumstances.

In this paper I want to **respond to the carbon tax announced yesterday with three simple propositions:**

- The three great emissions sources of the world, **China, India and the United States, are not about to adopt a carbon tax or equivalent system** and even the European system is in reality dramatically less onerous than what is proposed in Australia;
- **Electricity is singularly unsuited to a major tax** as the mean of changing either demand or supply unless the tax is at radical levels; and
- **The design of the Australian carbon tax will not work, will hurt families and will cost jobs while simply shifting emissions overseas.** In the end, for this particular problem, incentives are a far better way than cost of living taxes on electricity, gas, groceries and to use Senator Bob Brown's words, inevitably, fuel.

And while this debate is live in Australia, the global context is everything.

1.The Global Climate Challenge: China, India, the US and the EU

Climate change **is** a global problem. We therefore have to view our actions in terms of global solutions and global trends.

Let me begin then with the simple fact that according to the 3rd Garnaut Update Paper, **between 2005 and 2020 Chinese emissions will increase from approximately 5 billion tonnes of CO2 per annum to over 12 billion tonnes of CO2 per annum**¹.

This growth of over 7 billion tonnes a year compares with an Australian decline of approximately 70 million tonnes on 2005 levels by 2020. In short, **our decrease in emissions is likely to be eclipsed by growth in one country alone, that is 100 times or more greater than our cuts.**

This is not though a reason for pessimism.

This is not a reason for inaction.

It is however a reason to keep our focus on the global outcome and the consequences of our domestic actions in such an environment.

In particular **if we design our programs in a vacuum there is the risk of unintended consequences.** That can be either in the form of:

- Impacts on the Australian economy; or
- Leakage of manufacturing to countries with higher emissions profiles for particular forms of production.

On the risk of unintended consequences, dare I mention at this point, the Home Insulation Program?

1.1 International Realities

The starting point for any international assessment is then the finding of the Productivity Commission that:

“no country currently imposes an economy wide tax on greenhouse emissions or has in place an economy-wide ETS².”

Not China, not India, not the USA, not even the EU.

¹ Garnaut Climate Change Review – Update Paper 3, “Global Emissions Trends,” 11 February 2011, p. 29.

² *Carbon Emission Policies in Key Economies*, Productivity Commission Research Report, May 2011, p. 50.

China and India

In spite of the Commission's findings, the Prime Minister has tried to highlight that China is closing some of its smaller coal fired power stations. That's true. The missing part of the sentence though should have been "and replacing them with larger stations as part of the fastest growth in emissions and coal consumption in human history."

Let me take the example of Xilin Gol, which is just one of 12 prefectures or leagues within Inner Mongolia which is itself one of 33 provinces or regions across broader China.

Late last year the China Daily reported that during the 12th Five Year plan from 2011-2015, this one prefecture of just over a million people:

"Plans to build 24 large scale coal mines and eight clusters of coal-fired power plants³."

It is not surprising then that when you look at China as a whole, Chinese coal consumption will increase from 1.4 billion tonnes in 2002 to approximately 4 billion tonnes in 2015.

More broadly, Chinese emissions are expected to grow to 496% of their 1990 levels by 2020. Again, this is the fastest growth in human-induced emissions in world history.

Similarly, Indian emissions are also growing at a dramatic pace. It now accounts for 4.9% of global emissions and this figure is rising commensurately with its economic growth. Projecting forward, it is estimated by Frank Jotzo of ANU that Indian emissions from fuel combustion alone will rise by between 75% to 94% from 2005 to 2020.

Unfortunately, the Prime Minister also attempted to distort what is happening in India with the statement that India is already taking "national action" on pricing carbon through a "clean energy tax on coal." The Indian coal tax is \$1 per tonne. By comparison the State royalty on Queensland coking coal is \$20 per tonne right here in Australia.

The truth is that neither China nor India has or will foreseeably have anything approaching an economy wide carbon tax.

The United States, Canada, Japan and South Korea

Turning from India and China (which is already the largest greenhouse emitter in the world) to the United States, there is virtually no prospect that the US will adopt a Cap and Trade system at any point in the period to 2020.

Indeed, the senior Republican on the House Select Committee for Energy Independence and Global Warming from 2007 to 2011, Jim Sensenbrenner recently declared of the now abandoned national Cap and Trade legislation that:

"Any kind of carbon tax is dead in the US⁴."

³ *China Daily*, "China's Xilin Gol League plans power boost", 20 October 2010.

⁴ Greg Sheridan, "More sense from Sensenbrenner than from Garnaut," *The Australian*, 30 June 2011, p. 16.

The Productivity Commission found that even the proposed US state-based Western Climate Initiative was likely to have a “close to zero” initial carbon price with only one out of seven original signatories proceeding in 2012. And it now appears that even the only possibly active state, California, is set to defer its scheme. Meanwhile on the East Coast the Regional Greenhouse Gas Initiative is both thin and falling apart with 2 states indicating their intention to withdraw.

In short, **higher energy and electricity taxes are off the agenda in the United States. Instead the United States has gone down a different path of directly supporting technology** including through various forms of incentives for activity.

Just like the United States, significant electricity taxes are off the table in Canada, Japan and South Korea, all of which have either abandoned or deferred their own schemes.

This brings me to the European Union.

European Union

Nowhere is the reality of the global climate challenge more starkly obvious than in a proper comparison of the Australian Government’s proposed carbon tax and what the European Union is actually doing.

The Minerals Council of Australia recently released research showing that over the first 5 years of the European Emissions Trading Scheme, it raised approximately \$500 million per year.

The Australian carbon tax by comparison will raise approximately \$9 billion per year. **The Australian carbon tax will be 18 times larger in dollar terms than the European scheme to date.**

However, when you take into account population, the comparison is the difference between a bowling ball and a pea. The EU has a population of just over 500 million. Therefore the EU scheme has raised just over \$1 per person per year.

Australia has a population of just over 22.6 million, so our scheme at the Government’s \$23 price will raise almost \$400 per person per year.

In short, **the Australian carbon tax is approximately 400 times more onerous on a per capita basis than the European scheme.**

In terms of its economic effects Australia has a super-sized carbon tax.

So when we look honestly at the international system a number of conclusions can be drawn:

- China’s emissions growth of 7 billion tonnes from 2005 to 2020 will be approximately 100 times Australia’s decrease of 70 million tonnes. In that context there is zero chance that either China or India will adopt any form of serious carbon tax;

- The United States, Canada, Japan and Korea have all either ditched or deferred carbon tax systems; and
- The Australian carbon tax is roughly 18 times larger than the entire EU system to date and almost 400 times more expensive on a per capita basis.

These facts are the real reason a push for a single global tax is failing. They will not be affected by any change in Australia. In short, **the rest of the world has overwhelmingly rejected the Australian model of a deep punitive electricity and energy tax.**

1.2 Rethinking Global Approaches to Climate Change: G20 and Sectoral Approaches

The sheer global numbers make it clear that solutions have to come at the international level. They also make it clear that **the problem of leakage of emissions will simply destroy the effects of poorly designed unilateral action by sending jobs and emissions offshore.**

In that situation I believe there are two important steps we should take at the international level.

First, the all-in UN negotiating approach of 180 countries locked in a convention centre with up to 40,000 observers is increasingly ineffective. Need I say any more than Copenhagen.

In the real world, any progress will be between the United States, China, India and the EU.

We should therefore task the G20 with a special responsibility for negotiating a four-way compact between these players. If we can do that then we have a genuine base for a future global agreement.

The second international step is to consider sectoral agreements. What this means is that we are pragmatic. Rather than focussing everything on country targets, we should focus on:

- A common approach for the steel industry;
- A common approach for the cement industry;
- A common approach for the smelting sector and so on.

This sector by sector approach may in fact be a much faster way to genuine emissions reductions because it in part addresses the problem of border inequality and leakage of jobs and emissions off shore.

Yes, we will still look at national targets. But the heart of real progress in my view is for parity of action across industrial sectors.

The carbon tax announced yesterday utterly fails to recognise this global reality. It has been **crafted against a fabricated and imaginary international environment** and will simply send jobs and emissions offshore while driving up costs for families and pensioners.

The world will not be a better place - but Australia will be worse off.

2. Labor's Carbon Tax: Won't Work, Will Hurt Families and Will Send Jobs and Emissions Offshore

In such an international environment there are three fundamental criticisms of the Australian carbon tax:

- It is essentially an electricity tax that will not affect either demand or supply unless it is at radically high levels, but it will drive up prices by 10 per cent in the first year alone, on top of all other increases;
- It will hurt families with an average cost of living increase of \$515 per year at the start, with the tax likely to climb from \$23 per tonne in 2012 to \$37 per tonne by 2020.
- It will send jobs and emissions offshore with average revenue raised of over \$160 for each tonne of domestic abatement in 2020.

2.1 Electricity to Increase But Without Significant Impact on Demand or Supply

At its heart, **this is a tax on electricity**. Given that we do not import electricity, prices will inevitably be passed through in every bill to every pensioner, to every family, to every farmer and to every small business owner. And they will go up every year with a special spike once the tax changes its name but not its impact to an ETS.

The talk of 1000 companies last week, or 500 companies this week, is another myth. The essential nature of the carbon tax is that it is an electricity tax and bills will rise by approximately 10% in year one on top of all other rises to date and will keep going up.

Electricity taxing is however singularly ineffective in changing either demand or supply in any meaningful way – unless of course it is at a radically high level that would cause widespread social damage and deep economic disruption.

Demand

Electricity has historically been the largest source of social progress and the largest source of emissions growth.

Electricity is also both globally and domestically an essential service. In economic terms that makes it an inelastic good. One recent international study found that electricity consumption is highly inelastic in both the United States and the EU.

The study found that, in both the United States and the EU, a 10 per cent increase in electricity prices would produce only a 2-2.5 per cent reduction in CO2 emissions from

residential electricity consumption. In other words, electricity pricing is a blunt and inefficient mechanism for changing household energy-use behaviour.⁵

In Australia, electricity demand is even less susceptible to pricing.

The NSW Independent Regulator recently found that a 50% price rise over 5 years from 2005-2009 inclusive resulted in only a 6% decrease in electricity consumption per capita⁶.

This means that you can drive up the price of electricity with very little impact on consumption but a great deal of pain for individuals.

For months the Prime Minister has resisted this logic, and argued that by driving up the price of carbon intensive goods – such as electricity or petrol – people will consume dramatically less. Eight days ago the Prime Minister abandoned that argument, at least for petrol, when she announced that petrol would be excluded from the carbon tax – for now.

But if petrol is out after a 9% drop in price since 1 July 2008⁷, then electricity should certainly be out after a 44% **increase** in price since 1 July 2008⁸ and 50% since December 2007.

In fact, everything should be out and incentives should be adopted instead. If the carbon tax won't work on petrol it sure as heck won't work on electricity demand.

The price of electricity pain is currently being felt right across Australia. That pain is about to get much worse.

Supply

The supply side rationale for the electricity tax also collapsed just over a week ago. Until now the carbon tax was intended mysteriously to somehow clean up our power supplies.

The explanation was that by forcing up power costs for brown coal generators they would not be able to compete with gas or renewables.

The problem however is that a likely price of \$60 a tonne would be needed before companies would consider switching from coal to gas.

Until then the power companies would simply pass through the higher costs of electricity to consumers in massively higher prices.

⁵ Ines M. Lima Azevedo, M. Granger Morgan and Lester Lave, *The Electricity Journal*, Jan/Feb 2011, Vol 24, Issue 1.

⁶ *Residential Energy and Water use in Sydney, the Blue Mountains and Illawarra - Results from the 2010 Household Survey* Electricity, Gas and Water — Research Report, December 2010, p 39.

⁷ Australian Automobile Association, Petrol Prices website, viewed 4 July 2011, <http://www.aaa.asn.au/issues/petrol.htm>.

⁸ Australian Bureau of Statistics, *Consumer Price Index*, March 2011, cat. no. 6401.0.

The Government's entire supply side case collapsed when it abandoned any pretence that the tax would clean up power stations and instead turned to the heart of the Coalition's Direct Action policy to do this.

After months of denying it, the Government leaked that it had been secretly negotiating with the brown coal power generators to pay for a switch from coal to gas.

The reason of course is that the carbon tax will fail to achieve this objective.

In short, the ALP's decision to use Direct Action-style incentives to address the power sector was complete capitulation on two fronts.

Not only will a carbon tax fail to clean up any power stations, but the Direct Action approach of targeted incentives will work to convert coal to gas. And it is the Government that has confirmed this with its adoption of the very system of phased incentive payments to do any heavy lifting in the power sector.

The carbon tax has simply become an end in itself, not a means to achieve change in either the demand or supply of electricity.

2.2 The Cost to Families

While the cost to families begins with electricity, it falls into a number of categories.

First, the average starting cost per household will be \$515 in the first year alone. This is of **itself a huge impost on families or pensioners or farmers** for example struggling with electricity stress. And there is **no guarantee that it will not be massively higher for any one pensioner or family or farmer.**

Second, the **tax will go up every year.** When the tax changes its name in 2015 to an Emissions Trading Scheme, that will not bring relief for families as the Prime Minister implies.

The effective tax will jump to at least \$29 per tonne in 2015 and to \$37 in 2020 according to the Government's own modelling. **This will be an over 60% increase in the tax on the Government's best case scenario.**

So the day the carbon tax changes its name will not be a day of relief for families. It will be a day the effective rate of carbon tax paid by families will really start to hike upwards.

A third impact on families, and young families in particular, is that housing prices are set to rise, as I said in my opening, thanks to the higher costs to Australian manufacturing and building materials.

Just last month, the Housing Industry Association warned that:

“While it's still too early to know exactly how much the carbon tax will add to the cost of an average new home, HIA estimates that it will increase by over \$6,000 under

a \$20 per tonne CO₂-e price, less the yet to be confirmed compensation measures, which are estimated to lower the additional cost by less than 15%⁹.”

In short, the best case scenario following yesterday’s announcement, as confirmed by the Master Builders Association, is that a new home for a couple struggling to enter the market will increase by \$5000.

When you recognise that:

- The starting impact is \$515 per family;
- The tax will increase by at least 60% within a few short years; and
- The tax will add at least \$5000 to the cost of a house;

It is no wonder that the Treasurer was forced to admit as long ago as 16 November 2009 that:

“We can’t guarantee that no-one will be worse off¹⁰.”

All it takes is a cold climate and thin walls, and a high heating bill could do profound damage to a pensioner in Launceston, Cooma or Morwell.

2.3 The Cost to the Economy: \$9 Billion a Year Tax and Loss of Jobs

Beyond the costs to families there is the cost to jobs, businesses and the economy.

The carbon tax documents themselves reveal that the scheme will raise the massive amount of:

- **\$27 billion in revenue over the 1st three years compared with capped and fully funded spending of \$2.05 billion for Direct Action over the same period.**

There will also be real impacts in terms of jobs – an Access Economics report highlighted the potential loss of 126,000 regional jobs under an earlier version of Labor’s scheme.

These figures will no doubt be updated in the coming months – but let it be clear that jobs will be lost as investment and emissions flow overseas. That is the inevitable consequence of the tax.

In particular, Australia’s 750,000 small businesses will receive no direct compensation for the massive jump in electricity prices from the carbon tax. This means that jobs will be lost and the price of consumer goods will go up.

A dry cleaner in Queanbeyan for example will see their electricity prices go up by 10% in the first year alone from \$15,000 to \$16,500. This \$1,500 will either have to come from the owner or from the customers. Either way, it is not a good news story for the battler, be they the shopkeeper or the shopper.

⁹ *Carbon taxes, new houses and Aussie jobs*, Housing Industry Association media release, 7 June 2011.

¹⁰ Wayne Swan, *Sky News*, 16 November 2009.

Sector after sector has been warning of massive costs to jobs and the economy, but the government has not been listening.

Automotive Industry

Let me just give the example of the automotive industry which is set to take a particularly heavy hit.

The Federal Chamber of Automotive Industries has estimated that based on a carbon price of \$20-\$30 per tonne, the projected additional cost to the Australian motor vehicle industry will be between \$56-\$84 million a year. This equates to between \$121 and \$412 for a new Australian car.

The Australian automotive industry is highly trade exposed and operates in a very competitive international market. **It is likely to have little or no ability to pass on any additional cost burden imposed by the carbon tax**, which instead serves only to undermine the future viability of the Australian automotive industry - **especially if cars from Japan, Korea and China have no such cost imposed on them.**

2.4 Economic Deadweight and Looming Black Hole

The final argument about the Australian carbon tax announced yesterday is that it is massively inefficient and has a looming funding crisis.

First, the scheme involves a massive churn. It taxes and then redistributes, rather than focussing simply on the required abatement.

Surely there must be a more effective way to reduce emissions than raising over \$9 billion in 2020, to reduce domestic emissions by 58 million tonnes at over \$160 of revenue raised per tonne of abatement.

Linked to this argument about efficiency is what Henry Ergas has identified as a looming structural flaw and black hole in the budget under the carbon tax compensation arrangements.

Ergas has recognised that the Government's modelling relies on importing an increasing proportion of permits after 2015. Indeed, the Government's modelling indicates that we are likely to be spending around \$3.5 bn on nearly 100 million tonnes of international permits in 2020 alone.

This revenue would not be received in Australia, but would be paid in massive quantities overseas. It would not be available to fund increasing household compensation in Australia.

So not only does money from Australian companies flow overseas in vast quantities, but **the budget has a built-in ever deepening structural deficit** - or black hole - for compensation.

Ergas writes of the carbon tax package:

“Even in the 5 per cent reduction scenario, by 2050, annual imports of permits amount to \$23 billion at today's prices; that is, each man, woman and child in this country will be transferring \$600 a year to foreign owners of permits. Whatever one may think of those transfers, they mean the government's compensation promise is vastly underfunded¹¹.”

The creation of a plan which has at its heart an inbuilt widening structural deficit makes the Home Insulation Plan look prudent.

3. Direct Action is a Better Alternative

Instead of penalties and taxes, the Coalition's Direct Action climate policy provides incentives for Australian businesses to reduce their carbon emissions and focuses on meaningful, effective and direct action to improve Australia's environment.

Our incentive-based approach will reduce emissions as well as address some of Australia's serious environmental problems.

Most importantly, under Direct Action there will be:

- NO cost to families;
- NO new taxes; and
- NO rise in electricity prices as a consequence of our Direct Action policy.

The Coalition's Direct Action Plan is costed, capped and fully funded– reducing emissions without a tax on everything.

3.1 How Direct Action Will Work

Using incentives rather than penalties, the Coalition's Direct Action Plan will allow the market to determine the cheapest way of reducing greenhouse gas emissions.

Out of a **general** pool of funding – the Emissions Reduction Fund – it will be up to the market to determine what the money is actually spent on.

The funding would be spent on the lowest cost projects, which could include for example:

- Soil carbon
- Tree plantations on non-prime agricultural land
- Cleaning up waste coal mine gas
- Cleaning up landfill gas
- Energy efficiency

¹¹ Henry Ergas, “Black Hole in Government's Carbon Compensation Plan”, *The Australian*, 8 July 2011.

- Converting some of the older, dirtier coal-fired power stations to gas.

Whatever the particular emissions reduction project, under Direct Action, funding will always go to those projects which provide the lowest-cost greenhouse gas emissions abatement.

3.2 Direct Action Funding – Costed, Capped and Funded

The Government has fabricated a figure for the supposed to households of our plan. Not only is the Government’s figure false, its sole justification was a random 600% increase in the price of abatement currently available in Australia.

Let me be absolutely clear. **Funding for Direct Action is capped, and fully funded from savings identified by the Coalition.** There will be no cost to households. Full stop.

Direct Action would cost \$3.2 billion over the first four years. At the last election the Coalition identified \$50 billion in Federal Budget savings for that period and will update these savings once the full budgetary position is clear prior to the next election.

For the sake of public reference, I just want to republish the fixed amount that we have allocated. This is capped and fully offset by savings.

Table 1. Costs of Direct Action

	2011-12 \$M	2012-13 \$M	2013-14 \$M	2014-15 \$M	Total \$M
Emissions Reduction Fund	300	500	750	1000	2550
One Million Solar Roofs	100	100	100	100	400
Clean Energy Employment Hubs	15	15	15	15	60
Solar Towns and Solar Schools	25	25	25	25	100
Geothermal and tidal Towns	10	15	15	10	50
Renewable Fuels	5				5
Greenhouse Friendly Programme	2	2	2	2	8
Urban Forests and Green Corridors	5	10	15	20	50
TOTAL	462	667	922	1172	3223

(Note that the Emissions Reduction Fund is the general pool of funding, which would be open to tenders to find the lowest-cost greenhouse gas emission abatement)

3.3 Direct Action: Fairer and Simpler

The Gillard Government’s carbon tax scheme is an unwieldy system of wealth redistribution which will cost the Australian economy and taxpayer dearly, and will achieve little in the way of emission reductions.

By contrast, the Coalition's Direct Action approach is fairer and simpler:

- **Every dollar goes to directly reducing emissions and not one dollar goes to business as usual.**
- Direct Action does not penalise Australian families or pensioners or businesses by driving up electricity prices.
- It is carrot rather than stick by choice while using the market for lowest cost abatement.
- It is capped so that there can be no funding blow outs, has been independently verified and is conservative in its estimates.

Under the Coalition's system, **every dollar spent in achieving the 5% emissions reduction target will be spent on reducing emissions in Australia.**

Conclusion

Ultimately, the carbon tax has become an end in itself.

The Australian carbon tax is 18 times larger than the European system in actual terms and almost 400 times larger in per capita terms.

Moreover, the Government has failed to recognise the world as it is and the facts that:

- The three biggest emitting countries of the world, **China, India and the United States, are not about to adopt a carbon tax or equivalent system** and even the European system is in reality dramatically less onerous than what is proposed in Australia; and
- **Electricity is singularly unsuited to a major tax** as the means of changing either demand or supply - unless of course the tax is at radical levels.

Against that background, the **design of the Australian carbon tax will not work, will hurt families and will cost jobs while doing nothing to reduce global CO2 emissions.**

The Government's carbon tax starts with a cost per family of \$515 and rises rapidly; it imposes at least a \$5,000 increase in the cost of a new house; and it **creates a permanent structural budget deficit.** The carbon tax will make Australians poorer, others richer and will simply shift our emissions overseas.

In the end, economics is about choosing the right solution to the right problem.

As my mother taught me, it is the same in life. The fastest way to transform essential services is not through punishment but incentives. And that is not just the difference in approaches to reducing emissions. It is also the difference in approaches to governance between the two political movements in Australia.