Solving Climate Change without Pain

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*This is a guest post from **Garry Glazebrook** of UTS (the University of Technology, Sydney).*

After listening to Al Gore, Nicholas Stern, Ross Garnaut and Tim Flannery, it is now obvious to most thinking people that we have to address climate change, and soon. It is becoming equally clear that the fall in oil prices over the last few months is only a temporary respite, brought on by a faltering world economy, and that oil prices will likely surge again as soon as the economy recovers. The implication is a need for massive investment in renewable energy, energy efficiency and sustainable transport. But how to fund such investment without sacrificing our economy, jobs or lifestyles?

One option worth considering would be for the Federal Government to identify approved classes of sustainable investment (e.g. renewable energy, carbon capture and storage, public transport, cycleways, rail freight infrastructure) which would then be eligible to receive preferential investment from our super funds. With the other regulatory hand, the government would decree that all super funds had to invest a minimum percentage of their assets in such approved investments, with the percentage rising steadily each year. The actual physical investments could be undertaken either by government agencies or by the private sector – both would be eligible.

Such an arrangement might fractionally reduce the short term earnings of the funds but any reduction would be small and containable. In the long term, however, by reducing the cost of investing in the infrastructure and industries we need to combat climate change and peak oil, it will benefit us all. The pill could be sweetened by removing the 15% taxation on these investments at the input stage for contributors. Given our multi-billion dollar Federal surpluses, this is hardly a show stopper.

The private sector could do the hard work of evaluating all the various sustainable investment opportunities, and making the investments as they saw fit. The government would be in charge of deciding eligibility for particular investment opportunities. It would do this by evaluating whether such investments would help combat climate change and/or reduce our future energy needs, especially for oil, or whether they would do the reverse. This would not be difficult. For example urban public transport systems would be eligible, but motorways would not. Similarly geothermal power stations would qualify while coal fired stations (without carbon capture and storage) would not.

Given the huge need to re-jig our energy and transport infrastructures, and depending on the percentage allocation for super funds, it is likely that available funds would be less than the potential eligible opportunities. This means a rational selection process for these cheaper funds would occur, maximising the economic as well as the environmental payoff from the investment.

Such an investment-side scheme would reinforce and operate in conjunction with carbon trading, whose main role will be to alter price signals for end products, such as kilowatts of electricity from different sources. But the investment-side incentive will reduce the load to be carried by the consumer pricing mechanism, thereby enhancing the political feasibility of making the scale of changes needed.

It would also avoid the angst associated with other countries "free loading" on Australia's efforts to combat climate change. Any government subsidies involved, together with any contributions by the citizenry in the form of reduced earnings on their superannuation contribution, would be quarantined to investment within our borders and will help make the Australian economy more sustainable, and less vulnerable to future oil-related shocks.

It is by now blindingly obvious that we have been under-investing in Australia for decades on essential infrastructure, and over-indulging ourselves at the K-Mart and the Mall. As a country, we have established a huge and well-resourced superannuation industry. But as the recent financial turmoil demonstrates, there is no guarantee that pure market forces will shift our superannuation investment dollars in the right directions quickly enough to genuinely secure Australia's longer term future, and that of our children and grand children. As Washington catches the mood for a greater role for government in our affairs, it is time for some bold leadership from our politicians.