

Introduction

Imagine 2020. Will we look back on the current period as the beginning of a long descent into a period of sustained economic and ecological insecurity?

The possibility is frighteningly real. Many indicators on both these fronts are alarming:

- World **economy** shrinking by 1.9% in 2009, the first contraction in world economic growth since WWII (source: IMF World Economic Outlook)
- Global **emissions** continue to increase, with CO2 emissions increasing 2.5% per year globally since 2000 (Source: CSIRO)
- And we're losing the fight to protect **biodiversity**: 6 million hectares of forest are cleared every year, and all major indicators of ecosystem health globally are in decline. (Source: World Biodiversity Outlook)
- World **population** projected to increase to between 9-11 billion by 2050, putting immense pressure on food supply, natural resources, and social systems.

But there is another possibility: We may look back on the period from 2008-2012 as the first step is a great transition, from an era of "insecure, unsustainable wealth" to the era of "genuine prosperity".

What Australia's role in such a transition might be is the subject of this presentation.

1) Two big challenges – economic and ecological crises

Recent decades have seen immense wealth creation, in Australia and most astonishingly in China and other rapidly growing economies. Yet much of this wealth creation has been accompanied by insecurity and dislocation. Ecologically, we know that our natural systems are under tremendous stress from ongoing loss of natural ecosystems, unsustainable use of natural resources like water, and of course climate change.

- a. **Climate change** is challenging our ingenuity, our resolve and our systems of international governance as never before. The need for industrialised nations to transform to a clean economy is widely recognised, but our societies are struggling to make real progress, with emissions continuing to rise in Australia and many other nations.

Similarly, the best way forward for countries such as China and India is to "leapfrog" over highly polluting technologies and move straight to clean prosperity, and for us to help them accomplish this, but here too the vision is far ahead of the reality.

- the leap straight to mobile phones in many developing countries (without bothering with land lines) is an example of leapfrogging technologies. But similar leapfrogging isn't happening with energy and transport technologies on a big enough scale.

Meanwhile, the science is increasingly dire. 2-3 degrees warming for Australia would:

- i. Bleach 97% of reef every year
- ii. Reduction livestock capacity of native pastures by 40%

- iii. Increase tropical cyclone wind speeds and bushfire risks by up to 10%
- b. The **global financial crisis** has highlighted the dangers of relying on incentive systems that encourage short-termism and self-interest, without being balanced by good governance for the collective good.

Executive compensation structures that reward short-term thinking, regulatory regimes that ignored risks that in retrospect seem obvious, and what economists call “moral hazards” all played a major role in triggering the financial crisis. Interestingly, many of those same drivers are at the root of our carbon-intensive economy.

But the crisis can be also seen not just as a failure of business and government, but a deeper shortcoming in a cultural ideology that emphasises material consumption as the only source of human fulfilment.

- Robert Kennedy, 1968: “the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile....

Here too there is great opportunity to craft a new economy that allows us to lead balanced lives of real value, not just material comfort.

2) Big ideas to catalyse the transition

- a. **Green economy** (investment plus supportive regulation = green jobs)
 - ACTU and ACF commissioned research identified 6 key sectors for the new green economy: renewable energy, energy efficiency, biomaterials, waste and recycling, sustainable water technology, and green buildings. In the next 2 decades, appropriate policy support for these sectors could generate 500,000 new jobs.
 - equally important to transform existing industries – under CPRS, assistance to trade exposed industries is being used to insulate them temporarily from the impact of climate regulation, when it should be used to assist them to transform to genuinely competitive, clean industries.
 - South Korea has dedicated 82% of its economic stimulus measures to environmentally positive projects, including revitalisation of four polluted river systems, the construction of hundreds of miles of bike lanes, and the replacement of all light globes in all government buildings with highly efficient LEDs.
- b. Opportunity of **nation-building** and reinvigoration of government’s role
 - visionary projects can provide unexpected, transformational benefits for a country. Would the Sydney Opera house have survived a rigorous cost-benefit analysis conducted in accordance with Office of Best Practice Regulation guidelines? Probably not, but thank goodness far-sighted leadership prevailed in that case.

- visionary projects could include:
 - o national smart grid, in conjunction with broadband investments
 - o national fast rail projects and dramatic improvement of public transport
 - o national network of electric vehicle plug-in points and battery exchanges, tied in to renewable energy sources
 - o landscape-scale protection for our precious biodiversity, including corridors to connect fragmented habitats and large-scale investment to ensure the ecological, social and economic resilience of our rural communities

- c. A better vision of **progress**. Currently, our media and political discourse is dominated by consideration of a handful of macroeconomic indicators, primarily GDP, employment, and inflation
 - i. Franklin D Roosevelt, 1934 State of the Union address: “the overwhelming majority of our people seek a greater opportunity for humanity to prosper and find happiness. They recognise that human welfare has not increased and does not increase through mere materialism and luxury, but that it does progress through integrity, unselfishness, responsibility and justice”
 - ii. genuine progress indicators can incorporate a broader range of issues that really matter, but are ignored or discounted in the official statistics.
Example: The Age reported that Victorian bushfires would increase the state economy by \$1-\$2 billion, because the destruction of existing housing didn’t count as a loss, but the construction of new buildings was positive activity. Further, the contribution of volunteer firefighters isn’t counted by GDP, even though it is critical, productive and selfless dangerous work.
 - iii. Economist Ross Gittens: the cost of depletion of sub-soil minerals alone amounts to \$4 billion per year, but that isn’t on the official national accounts.
 - iv. Joseph Stiglitz, former World Bank chief economist: “We have known for years that human economic activity exhausts our natural resources and damages our fragile environment, yet economists and governments have been slow to incorporate them into their measurements.”
 - v. French President Sarkozy has commissioned Stiglitz, Amartya Sen and a high-powered group of economists to advise on better alternatives to the GDP. Their final report will be issued in the coming months, but even their issues paper is full of rich reflections on the need for better and more useful measurements of progress.

3) What does this mean for the work of the SES?

- a. Coordinating response to big challenges across the **Commonwealth** government.
 - i. Example: Creating an efficient and effective carbon price involves not just a CPRS, but a wide range of government policies includes procurement, taxation, industry subsidy and investment schemes, transport and other

infrastructure investment, and many others. Currently these are not working well together – many policies continue to encourage the energy- and pollution-intensive activities that the CPRS should discourage. Fuel tax credits, FBT benefits for company cars, and resource rents that are far below competitive market rates all work to undermine the price signal in the CPRS. The current proposal to *lower* petrol prices as part of the CPRS legislation is not the best way to transition to a low-carbon economy!

- ii. Example: big focus on climate change, but recent Auditor-General report found very little progress in changing procurement in Commonwealth government agencies. Even as we try to shift the car industry to a greener future, most gov't agencies continue to purchase fuel-inefficient vehicles.
 - iii. South Australia's strategic plan is a good example of a long-term, cross-government framework intended to set top-level goals and ensure policy coordination.
 - iv. At the Commonwealth level, a sustainability commission could provide the needed coordination on a range of cross-governmental sustainability issues.
 - v. Positive example: Infrastructure Australia's process for assessing costs and benefits of infrastructure proposal has included criteria that previously were excluded or downplayed, such as climate impacts. The result was a better reckoning of the real consequences of different modes of transport, and a better coordinated cross-portfolio result: more than half of the investments recommended by Infrastructure Australia were in public transport, a major positive departure from previous road-heavy programs.
- b. **Commonwealth – State relations.** Need to find ways to improve national, state and local gov't coordination to drive toward common sustainability objectives. Conflicting notions of what is a "state" vs a "Cth" responsibility have hindered progress on critical issues like public transport and sound management of water resources. While COAG and Ministerial Councils are useful mechanisms, their processes are neither transparent, nor well known by the Australian public, nor consultative in nature.
- c. **International engagement** – Australia must cease viewing international negotiations as if they were simply a trading game. Strong aspirational statements (450 ppm, 25% conditional commitment) have to be mirrored by leadership in the nuts and bolts of global climate negotiations. We can not simply try to get the best deal for Australia no matter what – that approach will prejudice the global outcome. Furthermore, what was nominally a "good deal" at Kyoto – 108% increase, when most countries had to decrease – has lessened the drivers for innovation and competitive business development in Australia. We should view a tough target as a desirable objective, as a spur for the pragmatism and inventiveness of Australians, as a challenge we can meet, not as a burden to be avoided if we can.
- d. **New tools of policy analysis.** We need to broaden the existing suite of tools for measuring progress and analysing policy in Australia. Information systems maintained by ABS and others provide exhaustive data on a continual basis about the state of our economy, but there remain huge gaps in our understanding of our

own society and of our ecosystems. Similarly, when policy is analysed and recommendations prepared for governments, there is a heavily reliance on macroeconomic modelling. Such models have their place, but they often exclude considerations that can not easily and directly be converted into dollars and cents. In addition to tools that can estimate the impact of a policy on GDP, we need tools that can help us understand what impact a policy will have on ecosystem condition, on social equity, on work-life balance, on our physical and mental health, and so forth.

- vi. Example: Treasury “wellbeing” framework is a good statement of aspiration. But the challenge is how it is applied in specific policy context – current analysis continues to focus on a small set of macroeconomic measures, rather than the broader wellbeing emphasis of the framework itself.

Conclusion:

US President Barack Obama’s inauguration speech was one of the most inspiring speeches of our generation. And while he spoke to Americans, he had a message for us as well. Towards the end of his speech, he said: “And to those nations like ours that enjoy relative plenty, we say we can no longer afford indifference to the suffering outside our borders, nor can we consume the world’s resources without regard to effect. For the world has changed, and we must change with it.”

Australia must change with the rest of the world, and who is better to lead this change than those present in this room?