



I've always believed that markets offer the most effective way to create prosperity across the economy. Individuals and businesses make their own decisions about what to buy and what to sell, how much to spend and how much to invest, and where their time, energy and money is directed. This is the best way to encourage investment, drive growth and generate jobs. But of course markets are far from perfect. They don't always work as they should. That's why we need laws and regulations to try to make markets work for everybody. One example is pollution. At the moment, big polluters in Australia can release as much carbon dioxide and other greenhouse gases into the atmosphere as they want. They don't pay a cent. The real cost of this pollution is borne by all of society. And ultimately – without necessary action – it will be a cost paid by our children, grandchildren and future generations.

A Market Solution

When there is no charge to pollute, there is no reward for a business that finds a way of doing things that produces less pollution. There is also nothing to deter a business from increasing its pollution. A carbon price changes this by putting a price tag on emissions. This price tag will encourage businesses across the whole economy to reduce their pollution. It creates incentives to find cleaner ways of operating, promoting innovation and investment. Rather than relying on government decisions to regulate some activities and subsidise others, a carbon price leaves it to millions of businesses and individuals to find the most efficient and cost-effective ways of reducing pollution. Putting a price on carbon pollution uses the power of the market to deliver benefits to the whole of society.

It is not a choice between the economy and the environment, between jobs and pollution. It's increasingly clear that in the years to come no first-rate economy can be anything other than a clean-energy economy. Peter Voser, the chief executive of Shell, one of the world's biggest energy companies, said during the week he strongly backed a price on carbon pollution and said it wouldn't alter Shell's plans to invest some \$30 billion in Australia over the next five years. The failure to act is the real risk to Australian businesses and Australian jobs. Under a carbon price, our economy will continue to grow strongly. Treasury modelling shows an extra 1.6 million jobs will be created by the end of the decade and average income per person will rise by about 16 per cent to be around \$9,000 higher in today's dollars. For a Government that's focused on job creation – and has overseen an increase in employment of more than 800,000 jobs since it came to office – this outcome is critical.

A Modest Price Impact

The carbon price is not a tax on households or small businesses. It will apply to well under 500 of Australia's largest polluters, who will need a permit for every tonne of carbon pollution they produce from July 1. They will be able to lower the cost by reducing the amount of carbon pollution they emit. Some of the cost will be passed on, leading to modest rises in prices. Many prices, particularly food, will hardly be affected. The average grocery bill for a household is estimated to go up about 80 cents a week. One of the few places people will notice the difference is in the price of electricity. Treasury modelling predicted household electricity prices will rise by an average of \$3.30 a week per household because of the carbon price. That estimate has proved to be spot on now

that we see the actual price increases being set by regulators. All up, the cost of living is expected to rise by about 0.7 per cent. To put that in perspective, that's less than one cent in the dollar. As I told Parliament during the week, financial markets are also pricing in a similar price impact, and don't expect any further discernible impact on prices over the next three years. During the week, the ACCC announced a dedicated hotline to protect consumers who think businesses are trying to take advantage of the carbon price. Of course the vast bulk of businesses will do the right thing – as they always do. But any business that is thinking about making misleading claims about the impact of the carbon price should be aware the ACCC is ready to come down on them like a tonne of bricks.

Helping the Environment and the Family Budget

Every cent raised from a price on carbon will be used to provide tax cuts and increased benefits to households, to support the most affected industries and the jobs that depend on them, and to tackle climate change. When I'm out and about, I'm often asked by people why put a price on carbon pollution if all the money gets handed back again. It's a really good question. The carbon price is about changing relative prices – making goods and services that generate more pollution relatively more expensive, and those that generate less pollution relatively cheaper. Nine in 10 households will receive some combination of tax cuts and increased payments to help them with the cost of living impact of the carbon price. The Government isn't telling people what they should or shouldn't buy with their money. But if they switch to products or services made with lower carbon emissions at a cheaper price, they'll be able to keep some of the additional household assistance. Households that make a few changes at the supermarket and look for energy savings around the house – like turning off appliances at the wall – will be able to pocket the extra tax cuts, family payments or pension increases and come out in front. You will be able to do your bit for the environment and for your household budget at the same time.

Today I can share with you some new Treasury analysis that shows over 98 per cent of families with incomes up to \$150,000 will receive assistance, with around three-quarters being covered for at least the full average price impact of the carbon price. In fact, just over half of families with incomes up to \$150,000 will get a buffer of at least 20 per cent over the expected price impact.

Proportion of families who receive carbon price assistance, by family income and level of assistance

Family income up to:	Proportion of carbon price impact offset by assistance			
	Some	50% +	100% +	120% +
\$60,000	100	100	100	86
\$80,000	100	100	>95	77
\$90,000	100	100	94	73
\$100,000	100	>98	92	69
\$120,000	>98	>98	86	61
\$150,000	>98	91	74	51

To give you an example, take a family with two kids at primary school. The father is a construction worker earning \$60,000 a year and the mother does part-time clerical work earning \$25,000 a year. This family is likely to see price rises of about \$575 a year because of the carbon price and will receive household assistance worth \$879:

\$806 through tax cuts and \$73 through increased family payments. This leaves them better off by \$304, a buffer of more than 50 per cent.

Even as we pursue the difficult reforms to keep our economy strong, this Government has never lost sight of looking after the interests of Australians on low and middle incomes and those most in need of help. That's been the focus of Labor since day one, it's been the focus of Julia Gillard since she became prime minister two years ago, and it's remained our focus as we've gone about getting the big reforms in place that will set us up for the future, like the pricing of carbon pollution, like introducing the Minerals Resource Rent Tax, like giving consumers a better deal in the banking system, and like beginning the long road towards a National Disability Insurance Scheme.

The Reality of Pricing Pollution

When we announced the Clean Energy Future package a year ago, I said I wasn't going to hold my breath waiting for the scare campaigns to end. Come July 1, the fear mongering will no doubt continue. But slowly, as each day passes, those claims will ring more and more hollow. The reality is that price rises will be modest, households will be looked after, trade-exposed industries will be assisted, jobs will be created, and our economy will continue to grow strongly. We tend to forget that the big economic reforms of the 1980s and early '90s – like the floating of the dollar, the tearing down of the tariff wall and the introduction of superannuation – were all controversial and hard-fought in their time. Today, you would struggle to find many people to argue against these important changes. The same will apply for putting a price on carbon pollution in 20 years' time. A clean energy future is critical for our economy, for our environment and for our country. It will help make Australia a stronger, fairer, more sustainable nation.

Wayne Swan

Deputy Prime Minister and Treasurer

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