

Submission to the Productivity Commission

from:

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commenting on:

Productivity Commission (2025a). *Investing in Cheaper, Cleaner Energy and the Net Zero Transformation*. Interim Report, Productivity Commission, Canberra, August, 91pp.

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Personal context

I am a retired, academic, environmental economist, with some years of earlier experience as a UK government economist, as shown my CV (Pezzey 2025), attached separately. I have over 40 years' experience of researching and commenting on the welfare economics and political economy of environmental policies, particularly carbon pricing aimed at politically acceptable, cost-effective control of greenhouse gas (GHG) emissions. I submit these comments in a personal, independent capacity, in the interest of furthering Australian wellbeing.

Given my expertise, most of my comments on this Productivity Commission interim report ("PC2025a") and on part 1, Reducing the cost of meeting [GHG] emission targets, with just one comments on part 2, Speeding up approvals for new energy infrastructure; and I make no comment on part 3, Addressing barriers to private investment in adaptation.

Key points

- o There is much to applaud in PC2025a, in particular:
 - its mere existence (i.e. that there is a separate report on climate policy)
 - its frequent focus on the need for climate policies to be as technology-neutral as possible, since this is a key part of minimising the total cost of meeting any given target for emissions control
 - its strong focus on reducing regulatory burdens, since governments almost never spend enough time just deleting and/or avoiding duplication and conflicts in existing legislation. However, I point out some important dangers of excessive zeal here.
- o As any decent economics textbook (e.g. Pezzey 2026, my forthcoming textbook with Cambridge University Press) will state, wellbeing (utility, in economic jargon) is a wider, different concept than living standards, *if* the latter is defined, as I will define it here, as average household disposable income, real GDP per capita, or some similar

dollar-denominated measure derived directly from standard national income accounts. So it's vital, though doubtless uncomfortable, for policymakers and their advisers (e.g. the PC) to admit that *improving wellbeing* – for example by achieving environmental targets, including Australia's contribution to the global environment by meeting its national emission targets – *may conflict (trade off) with improving living standards*.

- o Another reality is that *all energy use has environmental costs*, be that local or global atmospheric air pollution from burning fossil fuels, or the disamenity (unsightliness, noise, social disruption) and biodiversity impacts of constructing and locating new energy infrastructure. So it's also vital, though uncomfortable, for policymakers to admit that cleaner energy may be more expensive: there's no guarantee it will be cheaper.
- o The Australian Government's avoids both uncomfortable realities, for example, in its mentions of living standards but omission of wellbeing in Australian Government (2025), and its specification there of "cheaper, cleaner" in the title of PC2025b. So it is unsurprising that both PC2025a and PC2025b make no clear distinction between wellbeing and living standards, and thereby – I claim, though the wording is quite vague – end up focusing mainly on narrow living standards, and thus avoiding discussion of any possible conflict with wellbeing. For example, on p2 of PC2025b, the PC is "driven by concern for the wellbeing of the community as a whole, then on p5 the Chair's Message moves from improving wellbeing to focusing on lifting living standards as the key goal, and by p13 and p18 wellbeing has disappeared.
- o Given the PC's huge economic literacy and political independence, and the political danger of allowing Australian governments to give people unrealistic assurances that energy can readily become cleaner *and* cheaper, it think it is important for the PC's final version of PC2025a to be clear about the possibility of conflict.
- o Another unsurprising feature of PC2025a, but one I will criticise, is its very low-key, I would say half-hearted support of a national carbon price, which in one instrument can – and did, in 2012-14 – achieve much greater cost-effectiveness of emissions reduction, and also much greater regulatory simplicity and automatic technology neutrality in so doing. I know carbon pricing is meant to be political poison in Australia, and perhaps should not complain about the job creation for environmental economists implied by PC2025a's section on pp31-32 on "Estimate policies' cost-effectiveness and assess them against the benchmark", but it is striking how many parts of PC2025a are an implied plea for the benefits of a national carbon price. So I think this should become a bold, much more prominent and explicit plea in the final report.
- o Highlighting both these points – possible conflict between energy's cleanness and cheapness, and the benefits of carbon pricing – would then lead into an important new section which I think is needed in the final report, on discussing the political acceptability (or not) of any policy recommendations made. I think the complete absence of such discussion in PC2025a – effectively the pretence that climate and energy policy can be a purely technocratic affair – does the policy debate a disservice. After all, it was the lack of enough, good, non-partisan information on political (i.e. public) acceptability that arguably scuppered Australia's 2012-14 carbon price.

- o Since any national carbon price is bound in any pure form to have regressive effects nationally, and since new energy infrastructure is bound to cause environmental damage locally, the final report should discuss ways to reduce inequality and damage. This would be both nationally (via income redistribution, improving government-provided services like universal health and education) and locally/sectorally (mitigating or compensating for concentrated disamenity and/or adjustment costs; the lack of mentioning these in PC2025a, aside from p36's passing mention that "NEI can impede views and cause noise" is striking! There is a danger that emphasis on a strike force and prioritising approvals certain NEI will belittle such damages, and end up causing more political resistance and delay that it tries to reduce.

References

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- Pezzey, John (2025). Brief CV. From <https://people.anu.edu.au/jack.pezzey/>
- Pezzey, Jack (2026, forthcoming). *Sustainability Economics: Scarcity and Growth on a Finite Planet*. Cambridge University Press, c.483pp.
- Productivity Commission (2025a). *Investing in Cheaper, Cleaner Energy and the Net Zero Transformation*. Interim Report, Productivity Commission, Canberra, August, 91pp. [PC2025a]
- Productivity Commission (2025b). *Corporate Plan 2025-29*. Productivity Commission, Canberra, August, 22pp. [PC2025b]