

How Coalition can improve the odds stacked against it

Party in crisis
The Coalition has relied too much on selling fear. It would do better if it tried selling the future.



Elmer Funke Kupper

This week, Victorian MP Julia Banks moved from the Coalition to the crossbench as an independent member. Subsequently, the odds of the government winning the next election moved from \$3.70 to \$4.25. The Labor Party narrowed to \$1.20. That is quite a gap.

The issues that plague Canberra have become ever greater since 2007, and this creates quite a challenge for voters come next May.

I was not allowed to vote in the days of Hawke or Keating, but would have voted for them. Just like I voted for John Howard. All three were strong leaders who focused on relatively few, important policies – floating the dollar, setting up our superannuation system or introducing the GST.

The fact that they belonged to different parties was less relevant than their personal leadership on the issues that would determine our future.

This explains why Daniel Andrews won in Victoria this week.

Sure, it's not all roses with Mr Andrews. He is building a state apparatus that is growing well ahead of inflation. He spent a billion dollars not to build a road. He shut down a large power station before having an alternative in place. And one wonders why the state has to provide food for children who go to school, instead of – wait for it – their parents. These are fairly typical issues with a Labor government.

Despite these shortcomings, Mr Andrews was re-elected because he provided a positive agenda that deals with the very real infrastructure challenges of a growing city – across transport, health and education. It is the number one agenda item that matters to Victorians.

Victoria is still well behind in its infrastructure investment program. Most of us would like to see it through. Continuation of leadership helps, particularly when the alternative government is unconvincing.

The Coalition can act to improve its odds. The reaction to Scott Morrison and Josh Frydenberg has been largely positive. They seem well grounded and sensible.

I have been thinking about what Mr Morrison has to do to improve the odds. It



Bill Shorten and Scott Morrison facing off on Tuesday. PHOTO: ALEX ELLINGHAUSEN

will not be easy. There are at least three decisive steps he has to take.

First, he has to remove the influence of the plotters and the far right. To this day, the removal of Malcolm Turnbull remains unexplained.

More surprisingly, the coup leaders remain in their posts. It seems all right to take the country through this nonsense and, when it fails, just keep going as if nothing happened. It really isn't.

No appeals from past leaders like Mr Howard will convince voters they need to unite behind their party. Voters need more tangible evidence it's been dealt with.

Moreover, the far-right policies that sit behind the coup are less relevant today. They tend to focus on fear. Fear of immigration, fear of climate change policies, fear of cost of living pressures, fear of all Labor policies.

Many people share those fears. I share some of them. It's just that fear alone is not enough to win elections. We need an agenda that gives hope of a better future as well.

Second, Mr Morrison should have a

Bill Shorten has to do less to stay in the box seat for the election.

climate change policy. Last year, I wrote a positive piece in *The Australian Financial Review* on the National Energy Guarantee (NEG). It was the first sensible policy that married together energy security and the environment. It recognised that renewables can now compete with traditional fossil fuels. It was almost universally supported. It even looked like it might get through Parliament.

It's therefore hard to understand why the Coalition dropped the NEG. It's one thing to be a climate change sceptic. It's another to have no long-term policy whatsoever, and then torpedo the one policy that made sense.

It now looks like Labor may adopt the NEG. Clever.

Third, Mr Morrison has to balance the debate around immigration and infrastructure. Australia has delivered 25 years of uninterrupted economic growth.

In the last decade around one-third of our growth has come from immigration. This is material. Australia needs more people over time. Cutting immigration materially will prove to be an economic mistake, even if it plays to the immediate fears of many people.

It is true that Melbourne and Sydney cannot handle the growth. This is not a function of growth, but a function of a lack of investment in infrastructure.

The federal government has to make a material infrastructure commitment that is supported by the states. This commitment must be one of the largest in history and include a number of committed projects. That way, we break through the decades of debate and inaction. Victoria is showing how to go about this and how to win over voters.

Both leaders can still be competitive. The bookies are usually correct when they call a clear favourite.

Mr Morrison has some hard decisions to make if he is to change the odds. He can attract undecided voters and reduce the swing to Labor. He is well liked personally, and can build on this if he deals with the issues in his party and builds a positive agenda. I suspect he has three months to get this done. Not a lot of time, but not impossible.

Bill Shorten has to do less to stay in the box seat. He must show undecided voters that he can run the economy sensibly. And he should moderate a few of his policies in areas such as negative gearing and climate action. Keep the ideas, but take off the rough edges that will do damage without much feedback. If he shows he is willing to listen to feedback, he can consolidate his position in the next six months.

When we go to the ballot box, we place a bet for the next three years. Gamble responsibly.

Elmer Funke Kupper is a private investor and a former CEO of the ASX.

There is a third way out of the climate and energy policy knot

Climate wars
A market-based carbon price can be turned into a climate dividend that offers a \$20 billion gain shared with all Australians.



Richard Holden and Rosalind Dixon

For more than a decade Australia has been trying, and largely failing, to do something meaningful about climate change.

And in the run-up to the next federal election we are faced with competing visions from the government and opposition. The government wants to threaten power companies into lowering electricity prices; the opposition wants to invest public money in green energy and transmission infrastructure.

We should assess any energy plan against three broad criteria: it must ensure energy affordability, reliability and carbon reduction in line with our Paris commitments. Affordability also needs to be universal: it cannot mean affordability for large numbers of Australian households, but increased disadvantage or economic stress for the most vulnerable.

Measured against these criteria, the government's policy scores well on reliability. It has good intentions on affordability, though uses the wrong tools, and is thus likely to fail to meet its objectives. Rather than relying on the power of markets it involves bullying energy companies into lowering prices with threats of divestitures. It is thoroughly un-Liberal. And it scores almost zero on carbon reduction: it is hard to see how we achieve meaningful reductions without any real plan to do so.

The ALP's policy, in contrast, scores well on carbon reduction and moves in the right direction on affordability and reliability: it aims both to unlock new power sources that can reduce carbon emissions and increase reliable energy supply.

But it puts a lot of faith in government bureaucrats, rather than the market, to achieve these goals, and will be very

expensive if it has to be repeated many times over, to get us to our Paris targets.

We have therefore suggested there is a better way for both sides of politics. Last week we launched a new policy that proposes a universal carbon price set at \$50 per tonne with a commitment to rebating 100 per cent of the net proceeds from that tax directly to Australian citizens.

This "climate dividend" plan would make sure that alternative energy sources were put on an even footing with coal and gas, and therefore encourage new investments in renewable energy.

Coal-fired power remains as long as it is necessary to ensure reliable supply.

But it would do so in a market-based way, which would ensure that energy reliability is retained – and coal-fired power remains part of the mix, so long as it is necessary to ensure reliable energy supply. Rather than mandating a certain proportion of renewables, energy choices would be determined by market forces.

Most importantly, it would address the affordability problem in new and important ways: instead of providing ad hoc forms of compensation to different groups, as Labor did in 2011 when introducing a carbon price, it would provide universal compensation to all citizens in the form of a carbon dividend – an equal slice of the revenue raised from the carbon tax. In fact, our calculations

suggest that a dividend of this kind would leave the average household \$585 better off each year after paying the tax, and make the lowest fifth of households by income \$1905 better off. Overall around three-quarters of Australian households would be ahead.

This is also before making any behavioural changes to reduce their carbon footprint. If they did make such changes, they would be even better off.

For businesses, it would not provide compensation, but assumes that increases in cost could be passed on to consumers (who are receiving compensation).

It would also directly address the challenge of global competitiveness: it would impose a "border adjustment tax" on imports from countries without an effective price on carbon, and exemptions for businesses engaged in manufacture for export to such countries. Business competitiveness would be maintained.

In some ways, the plan is quite radical: it openly embraces the idea of a price or tax on carbon. And it suggests that this tax should apply to all key carbon emissions – ie to energy, transport and agriculture.

But ultimately, any meaningful climate policy puts an implicit price on carbon – the only difference is that we do so openly, in a clear and transparent way that ordinary Australians can understand. Clarity of this kind also helps give business the certainty they need for major investments in the Australian economy.

In other ways, the proposal is also highly centrist: it seeks to transcend left-right divides and create a policy that can command support from all sides of the political spectrum. How might this proposal fit with existing government and ALP

energy policy? Our plan – indeed any plan that takes emissions reduction seriously – is inconsistent with the government's approach. But it need not be inconsistent with the policy Labor announced on Thursday to invest \$15 billion in clean energy and transmission. They are not mutually exclusive.

We prefer the level playing field between different types of energy provided by the tax component of our plan, a playing field on which renewables ultimately win if they provide cheaper energy on a carbon-costed basis. Labor's plan tilts further in favour of renewables. But the two could go together. They are not mutually exclusive, and could even be made to work in complementary ways – at least for a transitional period.

The ALP's boost to renewable energy could help speed up a market-based transition away from coal to renewable energy sources.

And a small portion of the proceeds from the carbon tax could be used to fund the promised \$15 billion investment in renewables – either by paying for the interest costs of borrowing that amount, or by paying for those costs directly, over five to 10 years.

The pot of money available for a carbon dividend to citizens, under our plan, would be roughly \$20 billion a year.

It is important for the plan's integrity for the vast majority of those funds to flow to households. But a small portion could certainly be used to support investment in green energy infrastructure during some transitional period.

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