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Policy Forum: Energy Poverty—What Is it, How Bad Will it Get and What Can Be Done to Help?

Introduction

Barbara Broadway*

Over the course of 2022, the world has seen an enormous increase in energy prices, and Australia is no exception. Retail prices for electricity and gas have already increased steeply, but price increases in the future are expected to be even higher: when retailer's current contracts mature, the large price changes in the wholesale market will be increasingly passed on to consumers. The government's budget, delivered on 25 October 2022, forecasts a 44 per cent increase in gas prices and a 56 per cent one in electricity prices over the next 18 months. High energy prices are expected to be a major driver of overall inflation over the coming years, not only driving up energy bills, but also the cost of other items.

As poorer households usually spend a larger share of their income on necessities, including heating and cooling their homes, they will be hit the hardest by this development, and Australia is likely to see a rise in energy poverty. However, energy poverty is not a simple function of income. It results from a complex interaction between energy prices, household incomes and the household's energy needs—which depends on its geographic location, the quality of the dwelling and efficiency of appliances, as well as on individual needs that can vary with a person's health and many other factors. The analysis of energy poverty, its extent, its causes and consequences is thus as complex as the problem itself.

The Australian Economic Review dedicates the current issue's Policy Forum to the most

pressing questions: What, exactly, is energy poverty and how do we measure it? How much energy poverty will we see over the coming years, and who will be most affected? What can policy-makers do about it?

Sangeetha Chandrashekeran, Viktoria Noka and Stefan Bouzarovski ask how energy poverty is measured and inquire into what data are available to do so. They argue that Australia's understanding of the scale and nature of energy hardship is limited because there is no clear definition of the phenomenon, and therefore no clear metrics are being collected. Moreover, institutions to monitor the problem are lacking. The authors look to Europe to show how sophisticated quantitative measurement and monitoring tools can be designed, and how they can contribute to good governance and promote transparency. They discuss the advantages and disadvantages of different measures and indicators of energy poverty, and argue that Australia needs a systematic review of indicators that will provide a complex picture of energy poverty across regions and population groups in a simple way.

Paul Simshauser forecasts levels of energy hardship and examines different policy options to alleviate the problem through household subsidies. Using microdata from the 2015 Survey of Income and Housing and rolling it forward to 2024, he projects how levels of energy poverty will change in Queensland by 2024, finding that 10.5 per cent of households will be energy poor. However, this can be mitigated if governments directly subsidise household energy bills. The study compares three policy options that differ in their horizontal and vertical efficiency: flat-rate subsidies granted to pensioners, flat-rate subsidies

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granted to health care card holders, and a subsidy that is relative to an eligible household's energy bill while holding the overall budget constant. Simshauser makes the case for subsidies that are directly targeted at low-income households and cover a share of the electricity bill.

Esperanza Vera-Toscano and Heather Brown use data from the Household, Income and Labor Dynamics in Australia Study to analyse how the risk of energy poverty is tied to socio-demographic characteristics of households and individuals. They pay particular attention to whether the condition is temporary or persistent. They find that while most people who experience energy poverty in Australia do so for a limited time, some are at high risk of persistent energy poverty: this includes single individuals, single-parent households, those with a disabled household member, unemployed individuals and migrants from non-English-speaking backgrounds.

Lavinia Poruschi and John Gardner examine housing quality's role in energy poverty. What do we know about how access to rooftop solar, or a home's energy efficiency, affect energy hardship, and what the different impact of this may be on renters versus owners? Can energy hardship programs remedy the situation? The authors assess what datasets are available for improving our knowledge about the connection

between dwelling features, energy poverty and energy hardship programs. They argue that a crucial piece of information is missing: the main datasets in Australia that include information on housing quality are cross-sectional, and the main datasets that are longitudinal do not include information on housing quality. This poses a serious challenge for researchers who want to evaluate the effectiveness of energy hardship programs over time and how it relates to physical aspects of the dwelling.

While the articles in this forum all analyse energy poverty from very different angles, they all overlap in one important finding: that the multidimensionality of energy hardship makes it hard to measure, and thus difficult to target policy where it will help the most. There is a real need for clearer definitions, clearer standards regarding what it is we need to measure, and better data for doing so. All articles in this policy forum outline clear steps for reform and I am certain our readership will benefit from and enjoy these insightful pieces.

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