



THE ECONOMICS OF AVOIDING ACTION ON CLIMATE CHANGE

by Clive L. Spash

ELEVEN OF THE PAST 12 YEARS were the warmest on record, atmospheric concentrations of carbon dioxide (CO₂) are higher than at anytime over the past 650,000 years and glacier melt threatens the availability of water to 500 million people in South Asia and 250 million people in China. So reports the Chairman of the Intergovernmental Panel on Climate Change (IPCC). Yet the world has failed to act despite such outcomes having been predicted for 20 years or more. Could part of the reason be that economists have been fiddling to produce figures recommending inaction while the planet gets set to burn?

Although economists first applied their craft to climate change in the early 1970s, “greenhouse economics” has been a minority interest until recently. Those conducting economic studies tended to believe control costs matched or outweighed the benefits of avoiding damages. This changed in October 2006 when a UK government backed and funded report by Sir Nicholas Stern, an ex-Chief economist of the World Bank, concluded international action to reduce emissions was economically justified. Economic Nobel laureates clamored to make statements of support. Does this apparent awakening of mainstream economists offer hope, a case of better late than never?

Well, we’ve been here before. Major international political attention was first paid to climate change in 1988. At a meeting in Toronto, governments agreed to 20 percent cuts in CO₂ emissions by 2005. The same year, the Hamburg World Congress recommended 30 percent cuts by 2000 and 50 percent by 2015 (with some dissenters). However, instead of government action, we only saw the IPCC established to “study” the issue further. A decade later, Kyoto’s few percent emissions cuts for developed economies were still seeking ratification. Businesses in the US spent \$100 million fighting the Kyoto Protocol, claiming it would hurt the economy. The highest per capita polluters, the US and Australia, withdrew and remained outsiders in the international consensus of concern. Underlying this government backtracking, delay and timid target-setting is economic power politics.

For corporations, the consumer society is a marketing dream come true with low product durability, built-in obsolescence, rapidly changing fashions, fads, and advertising media in every household, all dependent upon cheap fossil fuel energy. Powerful vested interests gain money and control by keeping the economic system un-

changed and running full steam ahead. This requires ever-greater throughput of materials and energy as if there were no physical reality, limited resources or laws of thermodynamics.

However, science and physical laws only point to the implications of human actions, they do not make ethical choices for us. The size of population, the pressure humanity places upon ecosystems, the time allowed for change and the rate at which humans impose change are all matters requiring serious political and public attention and debate. Instead, throwing ourselves head-first down the helter-skelter seems to have precedent over standing back and using some judgment.

Neoliberal politics and free market economics does not tolerate questioning consumption, knowing that consumer society is erected on moral quicksand. Should luxury items be produced using energy which others need for basic food production? Should fuel be burnt so people can sit outside restaurants and bars in winter, run cars on trivial trips around town or fly off for a weekend break? Suggesting limits to frivolous resource use means confronting how wants contrast with needs. For mainstream economists, unlike philosophers and social psychologists, human motives go unquestioned so that spending on pure luxuries for the rich is just as important as spending on basic subsistence by the poor. In the market system, democracy is people voting with their money – assuming they have some.

Orthodox economists, like Stern, enter this fray in a very particular way. Stern’s report warns that “if we are not ‘green,’ we will eventually undermine growth.” This quote is telling because it makes growth the priority goal. Such economists believe all humans are utilitarians who can only be made happy by having more to consume. The complementary myth is that ever-increasing economic growth is “the way” to solve all problems. However, social psychologists, such as Nobel prize winner Daniel Kahneman and others, have shown how material well-being is soon divorced from life satisfaction once basic needs are met. More stuff does not mean increased well-being. In addition, a bigger cake may provide more crumbs for the masses, but redistribution is the direct means of alleviating poverty. Still, mainstream economists hold to their faith: “development is consuming more.”

For such economists, pollution control is only a worthwhile, or “efficient,” project if it generates positive returns. This is where cost-benefit analysis enters the picture: to

support withdrawal from Kyoto, President Bush used results from energy industry-funded analyses to claim changes to avoid harmful emissions would damage the economy. An old hand at supplying cost-benefit numbers on climate change is William Nordhaus of Yale University. His work has held considerable weight in the US's anti-mitigation debate.

Nordhaus and other expert climate economists use their own judgment to create economic "models" to predict future costs and benefits of greenhouse gas control. In order for the approach to work, all things must be comparable and measurable (called commensurability). Changes in health, education, and the environment are all reduced down to changes in consumption or income (measured by GDP). The underlying ethical choices are hidden by adding up various categories of loss and gain.

For example, Nordhaus speculates that there will be benefits of extra recreation in the US from a warmer world, but some loss of life elsewhere: this would mean dead people in China or India are compensated for by extra golfing holidays in Florida. In the 1995 IPCC report, economists varied the dollar value of life on the basis of income dif-

ferences, which meant a rich person was valued at 15 times a poor one; that is, there is a net gain if you kill 14 poor people to save one rich person. Stern sought to avoid the issue by using aggregate GDP numbers, but implicitly, in his "model," life is then measured by ability to consume. As nearly 3 billion people live on \$2 a day, or less, their life's worth as measured by consumption purchasing power (\$730 per annum) is worth far less than one-fifteenth of a rich person's. Stern, other economists and the IPCC happily adopt the assumptions which make this possible: commensurability and the dogma that all harms are compensated by more consumption.

Actually, this approach avoids requiring that losers get any more income or goods to consume. Orthodox economists assume the "potential" ability to compensate is enough. So golfers in Florida need not worry that they will be paying extra taxes to compensate families dying from drought, floods or sea level storm surges in the third world. As long as golfers are judged better-off by more than the families of the dead (and the dead themselves) are worse-off, that is all that matters. Clearly, asking the opinion of those involved is not on the agenda.

Damages in the distant future also means questioning how we consider future generations. Here, orthodox economists, like Stern and Nordhaus, use "discounting" – a kind of reverse interest rate – which allows them to treat the future as largely unimportant. This is justified by claiming people pay less attention to the future (myopia), the world

may end, so consuming now is best (used by Stern); and economic growth means the future will have lots to consume so we need not worry if they lose a bit because they won't value it as much as we do. Discounting uses interest rates – those of five percent to ten percent are common – which means future events (e.g. global destruction) are basically ignored after 40 to 100 years. The result is to justify delaying action until damages become imminent and imposing harm on future generations. All this apparently has nothing to do with ethics, according to mainstream economists.

Of course, the future is uncertain and in most aspects unknowable. For example, the melting of the West Antarctic ice sheet is a possibility, but cannot be the subject of experimentation to determine a probability. The favored solution is to ask some friends – "experts" – for their opinion. The resulting probabilities are used directly or plugged into computer models to derive probability distributions. The results hide judgments as to who is asked, when events occur, their size and how they are selected. Risk analysts assume all future states of the world can be specified, but typically select a few scenarios (Stern selected just four).

“Economics needs fundamental revision if human-induced climate change is ever to be addressed.”

Many environmentalists have been tempted to take Stern's report as a clarion call for action, without recognizing this as the same flawed, value-loaded economics which has been used in the past to prevent urgently needed action from being taken. Stern's assumptions mean accepting global warming in the order of 2-3°C, and forgetting about the potential for catastrophic impacts at lower greenhouse gas concentrations. Stern's "solution" is a big new carbon market, some technology and adaptation. Most importantly, we must all remember this is a profitable business investment with positive rates of return.

This whole financial framing of the problem is not rigorous and sober analysis: just wrong-headed. Preventing human-induced climate change is no more about profitable investment and good rates of return than one person's golfing is another's compensation for poverty and death. We are still being told there is no need to change the economic system or the expectations of those who want to consume regardless of the consequences for other people in other lands and future times. Economics needs fundamental revision if value conflicts are to be exposed and debated, and if human-induced climate change is ever to be addressed as a serious matter relating to how humans have structured their political economy.

Clive L. Spash is former president of the European Society for Ecological Economics and author of *Greenhouse Economics: Value and Ethics*. For more see CliveSpash.org

Clive L. Spash is former president of the European Society for Ecological Economics and author of Greenhouse Economics: Value and Ethics. For more see CliveSpash.org