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The trillion dollar band-aid

Solving climate change will be the most expensive public policy decision ever. Half-baked thinking won't fix it now

Bjorn Lomborg

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One commonly repeated argument for doing something about climate change sounds compelling, but turns out to be almost fraudulent. It is based on comparing the cost of action with the cost of inaction, and almost every major politician in the world uses it.

The president of the European commission, José Manuel Barroso, for example, used this argument when he presented the European Union's proposal to tackle climate change earlier this year. The EU promised to cut its carbon emissions by 20% by 2020, at a cost that the commission's own estimates put at about 0.5% of GDP, or roughly €60bn per year. This is obviously a hefty price tag – at least a 50% increase in the total cost of the EU – and it will likely be much higher (the commission has previously estimated the cost to be double its current estimate).

But Barroso's punchline was that "the cost is low compared to the high price of inaction". In fact, he forecasted that the price of doing nothing "could even approach 20% of GDP". (Never mind that this cost estimate is probably wildly overestimated – most models show about 3% damages.)

So there you have it. Of course, politicians should be willing to spend 0.5% of GDP to avoid a 20% cost of GDP. This sounds eminently sensible – until you realise that Barroso is comparing two entirely different issues.

The 0.5%-of-GDP expense will reduce emissions ever so slightly (if everyone in the EU actually fulfills their requirements for the rest of the century, global emissions will fall by about 4%). This would reduce the temperature increase expected by the end of the century by just five-hundredths of a degree Celsius. Thus, the EU's immensely ambitious programme will not stop or even significantly impact global warming.

In other words, if Barroso fears costs of 20% of GDP in the year 2100, the 0.5% payment every year of this century will do virtually nothing to change that cost. We would still have to pay by the end of the century, only now we would also have made ourselves poorer in the 90 years preceding it.

The sleight of hand works because we assume that the action will cancel all the effects of inaction, whereas of course, nothing like that is true. This becomes much clearer if we substitute much smaller action than Barroso envisions.

For example, say that the EU decides to put up a diamond-studded wind turbine at the Berlaymont headquarters, which will save one tonne of CO₂ each year. The cost will be \$1bn, but the EU says that this is incredibly cheap when compared to the cost of inaction on climate change, which will run into the trillions. It should be obvious that the \$1bn windmill doesn't negate the trillions of dollars of damage from climate change that we still have to pay by the end of the century.

The EU's argument is similar to advising a man with a gangrenous leg that paying \$50,000 for an aspirin is a good deal because the cost compares favorably to the cost of inaction, which is losing the leg. Of course, the aspirin doesn't prevent that outcome. The inaction argument is really terribly negligent, because it causes us to recommend aspirin and lose sight of smarter actions that might actually save the leg.

Likewise, it is negligent to focus on inefficiently cutting CO2 now because of costs in the distant future that in reality will not be avoided. It stops us from focusing on long-term strategies like investment in energy research and development that would actually solve climate change, and at a much lower cost.

If Barroso were alone, perhaps we could let his statement go, but the same argument is used again and again by influential politicians. Germany's Angela Merkel says it "makes economic sense" to cut CO2, because the "the economic consequences of inaction will be dramatic for us all." Australia's Kevin Rudd agrees that "the cost of inaction will be far greater than the cost of action." United Nations secretary general Ban Ki-Moon has gone on record with the exact same words. In the United States, both John McCain and Barack Obama use the cost of inaction as a pivotal reason to support carbon cuts.

California senator Diane Feinstein argues that we should curb carbon emissions because the Sierra snowpack, which accounts for much of California's drinking water, will be reduced by 40% by 2050 due to global warming. What she fails to tell us is that even a substantial reduction in emissions – at a high cost – will have an immeasurable effect on snowmelt by 2050. Instead, we should perhaps invest in water storage facilities.

Likewise, when politicians fret that we will lose a significant proportion of polar bears by 2050, they use it as an argument for cutting carbon, but forget to tell us that doing so will have no measurable effect on polar bear populations. Instead, we should perhaps stop shooting the 300 polar bears we hunt each year.

The inaction argument makes us spend vast resources on policies that will do virtually nothing to deal with climate change, thereby diverting those resources from policies that could actually make an impact.

We would never accept medical practitioners advising ultra-expensive and ineffective aspirins for gangrene because the cost of aspirin outweighs the cost of losing the leg. Why, then, should we tolerate such fallacious arguments when debating the costliest public policy decision in the history of mankind?

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