

Climate debate: more about money than cleaning the planet?



DOLLARS AND SENSE
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GIVEN the recent melee brewed up by Greta Thunberg and Extinction Rebellion, one could be forgiven for thinking that we approach "peak hysteria" in a climate change debate seemingly captured by zealots.

How refreshing then to come across an interview between political scientist Bjorn Lomborg and psychologist Jordan Peterson, exploring the underlying issues.

People are forever saying we must believe in "the science", but all I have ever seen is projections with confidence intervals (a statistical term related to the probability of error) so large as to render the work meaningless.

As an economist I am used to seeing this type of "research".

Normally it is supported by a self-serving agenda, known in the trade as "rent-seeking".

None of that is to say that I don't believe that we should not cut emissions, but I think we should do it not on account of global warming, but simply because we are custodians of the planet and custodians are supposed to look after things.

High ideals aside, the bigger problem with the rabble is that it is not actually genuine in its aims.

What it is doing is attempting to mobilise politicians and their bureaucrat agencies to direct money at pet projects ultimately, in true Soviet style, through attempts to appropriate the source of wealth generation – business.

We can test the motives of these people, and even seemingly more civilised actors, by looking at the likely outcomes of their initiatives, should they be successful.

In short – how much good would targeting a two per cent



ECO WARRIORS: Activists hold placards before a march through downtown Los Angeles during a climate change rally.

reduction in forecast global warming do for our society?

To this end Bjorn Lomborg and his extremely talented team of economists, including several Nobel laureates, have undertaken a ranking of the 169 projects deemed of significant importance by the UN.

They ranked the projects on the basis of how much good would derive from each dollar spent. www.copenhagenconsensus.com/sites/default/files/post2015brochure_m.

Surprise, surprise, and leaving aside the matter of a virtually infinite funding requirement, targeting a two degrees reduction in global warming contributes a negligible amount to welfare for each dollar spent.

Contract that with freeing up trade which yields thousands of dollars of benefit per dollar spent.

Rolling out Aspirin Heart Attack Therapy, expanding immunisation and eradicating tuberculosis all yield between \$40 and \$60 per dollar spent.

Providing universal access to contraception is estimated

to generate about \$120 for each dollar spent.

Looked at in this light, the mantra behind global warming is a brazen attempt to reallocate funds from other much more beneficial projects within our control and which have generally known outcomes, to an endeavour with lesser benefits and which, based on the projections, the ultimate outcome is not even clear.

This is why members of the UN are so vocal about it – the focus on global warming provides an opportunity for the transfer of wealth from rich countries to developing countries without those developing countries having to do one thing in return.

All the while we could be eliminating TB, starvation and myriad other worthy causes, each year, one at a time – for an amount well within the UN's foreign aid budget.

You could put it another way – there is no money in helping the poor, but there's certainly money to be appropriated by scaring and shaming rich countries.

value.

The process happens instantaneously, updates are continuous and the cost of the process is very low (how close the approximation is to the "intrinsic value" is a whole economics sub-discipline in itself – if you are interested refer to the Efficient Market's Hypothesis).

Obviously, the market process is in direct contrast with the conduct of the debate on global warming – where a lot of information exists, but there is no real way to assess its validity.

Just as concerning, nowhere is a value put on this research, or the likelihood that one outcome or another will prevail.

In short, aside from calculations such as those undertaken by Lomborg, we do not know the value of cutting emissions, and without such a value, there is no price signal to which people can respond.

The result is simply loud and unhelpful argument.

While emissions trading schemes exist elsewhere in the world, their implementation in Australia has been clumsy.

The Greens say they don't like pollution, but they also do not like markets (because markets tell a truth, and thereby detract from the power of shouty interest groups).

As a consequence, the original schemes were marketed as a tax (which is much more palatable to a left-wing voting base).

The people who subscribe to the anti-market view are living proof that the climate debate is about appropriation of funds, rather than cleaning up anything at all.

In practical terms, all that is required to implement an Emissions Trading Scheme is a cap on the allowable pollution (presumably tied to the Paris Agreement), and a permit system which limits the amount of pollution a particular entity can release into the atmosphere.

An inefficient business that is spewing tonnes of pollution will have to buy emissions

trading credits, whereas an efficient business will have spare credits that it can sell.

In this way a cost is associated with pollution, just the same way as diesel is a cost and electricity is a cost.

When costs rise, businesses undertake initiatives to mitigate them – in this case implementing technologies to reduce pollution, reconfiguring production processes or even closing down.

The extent to which these responses are invoked depends on the price that the market puts on the emissions credits, which is in turn impacted by all that information discussed early on.

And as with the link between macroeconomic considerations such as interest rates and money supply on share process, macro-meteorological factors will also affect the price of credits.

If for example, global cooling sets in or the climate science turns out to be wrong, the price of the credits will tend toward zero – because the two per cent target will be met anyway.

Some people have said to me that they are suspicious that an emissions trading scheme will not be effective.

But they don't say that about the price of fuel altering travelling habits, or the price of meat making people substitute to other alternatives, including junk food.

Nor can they ignore the effect that rising electricity prices has had on the take-up of rooftop solar.

Ultimately a market for emissions circumvents ideological argument by providing a mechanism for the truth to bubble to the surface.

In this way it provides efficient guidance and direction against which individuals, business and government can make plans and adapt.

People care about the environment, but they don't know what to do about it.

My call is that if the Morrison Government puts an ETS in place, it will be in power for a decade.