

## Reaction to today's Martin Wolf column "In spite of sceptics, it is worth reducing climate risk"

-- Jeff Frankel, Economists Forum, FT.com, Feb. 7, 2007

I think Martin Wolf has it exactly right. (As does Martin Weitzman in his new review of the Stern Report.) Nicholas Stern may have been right for the wrong reason. It is as difficult to quantify the probability of the true climate catastrophe scenarios as to decide what exactly is the correct discount rate. But *avoiding risk of global catastrophe* is a more persuasive motivation than arguing that the proper rate of time preference is as low as 0.1.

As to the cost side of the cost-benefit calculation, it depends entirely on how we do it. If we allow trading in emission permits, both internationally and domestically (or substitute taxes on carbon and energy for other distortionary taxes), and if everyone participates, the true economic cost of successive Kyoto budget periods can be low. If we do it by clumsy command and control policies, the cost can be high. (Incidentally, if we do it by speeches about the miracles of technology, then it won't happen at all.)

For once, I have to part company with the usual economists' faith in cost-benefit analysis. The uncertainties around the discount rate, the catastrophe scenarios, and the costs are too high to make meaningful cost-benefit analysis work. But another difficulty is more serious still. Let us imagine we knew all these parameters, and could compute the optimal path in a Nordhaus manner. It would indeed probably start off with very small cuts in the near term, and ramp up deep cuts in the second half of this century, to give firms and technologists time to adjust to the new carbon-free future. This path would not be a useful guide to policy in the real world. *Policy-makers are not able credibly to bind their successors.* An announcement of deep cuts 50 years from now would not be believed, and would not much affect current behavior. This point, more than any, is missed by most economists. The world (including in particular the United States) needs to take strong action in the near term, because it is the only way of convincing a rational observer that there will also be strong action in the long term.

(<http://ksghome.harvard.edu/~jfrankel/GEI.htm>)