

Two questions for economists

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I have two questions to ask economists. They arise from this observation (which is widely recognized): simple economics tells us that the problem of climate change can be solved without anyone's making any sacrifice.

The argument is this. The problem of climate change is an externality: the people whose activity causes emissions of greenhouse gases do not bear all the costs of their emissions. Consequently, the state of the world's economy under business as usual is inefficient. It follows that there is another, efficient state that is better for someone than business as usual, and worse for no one. Because this second state is efficient, it contains no problem of climate change. To reach it from business as usual, no one has to make any sacrifice.

In this efficient state, we, the current generation, emit less greenhouse gas than we do under business as usual. Other things being equal, that would make us worse off, because we benefit from our emissions. But we can compensate ourselves for this loss by using up more of the earth's other resources, other than unpolluted air. We would leave fewer natural and artificial resources for future people. Having fewer of these resources would, other things being equal, make those people worse off. But the benefit to them of receiving less polluted air will more than compensate them for that harm.

This efficient state will not be a nice one. We get to it by starting from business as usual, which is very bad in some respects. Under business as usual, future generations are seriously harmed by our emissions. In the efficient state their lives will be better, but that means only that these future generations will be better off than they are in a state where they are seriously harmed. Other possible states that are better than this.

Compare these three:

A: business as usual

B: we reduce emissions and compensate ourselves

C: we reduce emissions and do not compensate ourselves

The cost-benefit analysis of the *Stern Review* finds that C is much better than A. C is also evidently better than B, which is better than A.

Moving from A to C requires sacrifices on the part of the current generation. We have learnt from Copenhagen that the current generation will not make those sacrifices. C is not at present attainable. Moving from A to B requires no sacrifice; the only question is how to distribute the benefits among the nations and the generations. B may well be attainable, and in B the problem of climate change is solved. Solving that problem is urgent. B is not a nice state, but it is better than A.

The difference between B and C is nothing to do with climate change; it is a matter of the distribution of resources between generations. We learn from the cost-benefit analysis that C is better than B. But moving from B to C should be a separate aim from controlling climate change. We should not encumber the urgent project of managing climate change with the separate, less urgent project of passing more resources to our successors.

I think we should aim for B. Getting to C can wait.

My questions:

1. Is the conclusion I draw from simple economics correct? To achieve the efficient state B, the current generation has to be compensated for reducing its emissions. The only means of compensation available is for us to use up more of other resources. We could certainly do that: whatever happens, we shall leave resources to future generations, and we could leave less of them. But is it true that we could benefit ourselves by leaving less? Perhaps we are already using just the amount of these resources that is the best for us. Perhaps we leave resources for the future only as a by-product of pursuing our own interest. If that is so, we could not compensate ourselves for reducing our emissions. The conclusion I draw from simple economics would not be correct.
2. Is there any practicable way of getting from A to B? To do this, people must in effect be paid for reducing their emissions. The payments will have to be supported by debt held against future generations. Could we devise a financial system that would make this possible?