

Practice Note

Climate Costs Do Matter: But Now It's Time for Urgent Action!

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A fierce debate raged during the Australian federal election campaign over the cost of taking meaningful action on climate change.

On one side of the political spectrum were macro-economic models with assumptions made to suit the client who commissioned the work. These competing models predicted wildly different outcomes for the economy resulting from climate action.² On the other side of the political spectrum was the view that economic cost modelling is “*yesterday's news*”.

Until the election results were announced, in which the ruling Coalition government had a miraculous victory, it appeared that the conventional wisdom by which climate change politics has been conducted in the past; i.e. the ideology of climate change *caution* - was on the edge of being eradicated in favour of immediate and urgent climate change *action*.

The Australian result went against worldwide trends, where the debate about modelling, costs and economic impacts is being replaced by the principle of urgent action to fight global warming. In early May 2019, the British parliament passed a declaration that environment and climate change is an emergency - putting Britain on a “war footing” on climate. The high-profile Swedish schoolgirl Greta Thunberg tweeted: “*Now other nations must follow*”.

In the USA, however, the Trump Administration appears to have thrown out all economic modelling in favour *no action* at all, as it does not believe in anthropomorphic (man-made) climate change in the first place. These views from the USA have been mocked worldwide as views of “*climate denying cave dwellers*”.

Climate Costs or No Climate Costs - That is the Question.

Some of the economic cost models predicted that the ALP opposition party's 45 per cent emissions reduction target by 2030 would cause gross domestic product to fall by up to \$542 billion.

Given such scary scenarios of the losses to gross national product of its climate action policies, the ALP opposition decided not to release its policy costings (if it had any). Mr Bill Shorten, the losing leader of the ALP, defended its position by stating that its policy could not be modelled or costed by saying “*The cost of not acting on climate change is far worse than acting on climate change; ...when you talk about cost, what's the cost to the environment, the cost in not acting?*”³

¹ First Published: Ratnatunga, Janeke, (2019) “Climate Costs do Matter: But it's Now Time for Urgent Action!”, *On Target*, ICMA Australia Newsletter, 23(3), May-June, pp.4-5.

² Nicole Hasham (2019), “Government sits on secret modelling of climate policy costs” *Sydney Morning Herald*, May 4. p.51

³ Simon Benson (2019), “Price Labor's carbon cuts? Yes, you can” *The Australian*, May 2, p.3

In his pitch to the Australian voter, Mr. Bill Shorten said the public is “*sick and tired*” of excuses and if Australia doesn’t take serious action it faces an economic disaster. His message was that the nation cannot afford inaction; and that costing climate action is yesterday’s question. In summary he said, “*Let’s just get on with it*”.⁴

The Coalition government’s miraculous victory indicates either that a majority of the Australian people still want to see the cost impact of climate action - i.e. they do not want to “*get on with it*” without knowing the costs of what they are getting into; or that climate change is viewed by many as “*tomorrow’s question*” – to be solved when the economy is more resilient.

Conventional Economic Cost Modelling

So, what are the economic costs of failing to act on climate change? Can it be modelled?

There is a place for economic modelling in a symposium, seminar room, or refereed journal; with the assumptions and conclusions being discussed by experts – but not in politics. Thinking people know and accept that the future is unknowable. Others delude themselves that somewhere out there is an expert with a crystal ball - who can give them a sneak peek at the future.⁵

The inescapable fact is that it is not possible to know the cost of climate action with even the remotest degree of *accuracy*. If you consider the range of assumptions that economist make in their modelling, any combination of expected economic outcomes of the cost climate action is possible – it depends on who is paying the bill for the modelling.

Assumptions can be made about costs at various hierarchical levels. Cost to the government budget? Cost to business? Cost to individual taxpayers? Cost to exports? Costs to minerals and resources industries? Cost to the macro-economy? Cost to the macro-economy? What about the benefits? Cost to the economy that ignores any benefit to the economy? And of course, the big one: Cost to the economy that ignores the cost of *not* doing anything?

Economic cost modellers have to make multiple and interrelated assumptions to model what some policy change will cost. For example; (1) how far and how fast the cost of renewable energy and battery storage will fall; (2) how far and how fast the cost of electric cars will fall; (3) how quickly firms that face higher energy prices will adapt by increasing their efficiency; (4) how the introduction of new sources of electricity generation and storage will disrupt the business models of today’s highly profitable electricity *retailers*; (5) how regulation of energy prices will increase or decrease the monopoly profits of energy and petrol companies; (6) how much the trend to *household* electricity generation and storage will increase the efficiency of the national grid by reducing problems with seasonal peaks in demand; (7) whether the batteries of electric cars will be a form of free storage for the national grid; and (8) how long it will take for autonomous vehicles to transform car ownership and use (Gittins, 2019).

So, What Counts: The Action or the Cost?

There are one of five approaches a person can take to interpreting modelling results: (1) believe all results that fit with one’s prejudices and ignore all those that do not; (2) don’t accept any results – even when you have been told which assumptions are the main drivers of those results – unless you are an expert in the field; (3) enjoy all the comforts that a carbon-centered life can bring until the lights go out in about 30 years; (4) leave your fate in your creator’s hand (or on luck); or (5) forget

⁴ Paul Kelly (2019), “Shorten reinvents climate politics”, The Australian, May 4, p.5

⁵ Ross Gittins (2019), “Only the stupid think the cost of climate change is simple” Sydney Morning Herald, May 4, p. 5.

about the dire predictions of the cost models and get galvanized into immediate and urgent climate action.

The last approach can border on extremism and civil disobedience. The logic cannot be avoided - once you say the issue is human extinction then you open the door to suspension or interruption of the democratic process to save the planet. This should be avoided.

Australia has had a largely peaceful political debate and an outcome that still favours caution in climate action. But there should not be too much of caution. Now that the politics is over, it is time for urgent climate action.

Otherwise it will take another miracle to save this planet.

