

8.2.3 Other Critiques of the Stern report

8.2.3.1 Introduction

A number of other critiques of the Stern Report have been published, most notably that of Weitzman (2007). In response, there have been quite a number of defenses of the Stern Report by economists, most notably one by Cole. Quiggan (2006) also wrote a defense of the Stern Report. Quiggan (an economist) provides us assurance that the credibility of the doubters regarding the connection between global warming and rising CO₂ “was on the verge of collapse” by 2006, due to the success of the documentary *An Inconvenient Truth*, and the fact that the “scientific controversies have now been resolved.” In his view, the Stern Report “outflanked the remaining skeptics. They could either continue denying the results of scientific analysis, or try to salvage the fallback position, undermined by the Stern Report, that although global warming is real, the costs of doing anything significant about it exceed the benefits, at least in the short term.” He then proceeded to fill about a dozen pages with economic hash, full of sound and fury, signifying very little. It is nice to hear from an economist that the “scientific controversies have now been resolved,” but considering the ineptitude of economists at their own trade, it would be better if they did not venture into unknown territories.

8.2.3.2 The “Dual Critique”

The “Dual Critique” (Part I: Science – Carter *et al.*, 2006 and Part II: Economics – Byatt *et al.*, 2006)) provided a serious independent assessment of the Stern Report. Part I began by taking issue with the quotation:

“... what is not in doubt is that the scientific evidence of global warming caused by greenhouse gas emissions is now overwhelming... [and] ... that if the science is right, the consequences for our planet are literally disastrous... what the Stern Review shows is how the economic benefits of strong early action easily outweigh any costs”.

As Part I emphasized, the Stern Report

“... presumes without question that moderate further increases in atmospheric CO₂ levels will give rise to major climatic changes and that these are likely to be seriously damaging; that the climatic changes observed over recent decades can be reliably blamed on emissions of ‘greenhouse gases’ in general, and CO₂ in particular; and that climate model projections and forecasts present a sufficiently accurate view of the future at relevant geographic and temporal scales to form a basis for major policy decisions”.

Part I argues against the conclusion expressed in the Stern Report that warming in the 20th century was unprecedented “for at least the last 1,000 years”. This of course implies acceptance by the Stern Report of the *hockey stick* and all the claims of alarmists regarding the late 1900s and early 2000s being the hottest since the last Ice Age. Part I mentions the Wegman Report as contradicting this finding. But the Stern Report insists that the *hockey stick* is “only one of a number of lines of evidence” although these other lines of evidence are not presented.

The confidence expressed in the Stern Review appears to derive heavily from a single published paper (Stott, *et al.*, 2000) that utilizes a global climate model in an attempt to separate natural variations from those induced by human generation of CO₂. Unfortunately, the model predicts a much greater temperature rise in the 20th century than was observed and the modelers had to invoke a significant cooling due to aerosols *ad hoc* to reduce the heating produced by the model.

Part I goes on to discuss other aspects of the Stern Review's technical basis for alarmism, as well as the putative impacts of predicted global warming, much of which we have already discussed in this book.

Part II deals with economics issues. The first point that is made is that the lack of clarity in the Stern Report makes it difficult to determine precisely which procedures were used. Part II is divided into six elements: (1) economic impacts of global warming, (2) costs of mitigation, (3) discounting the future, (4) choice of policy instruments, (5) major omissions from the Stern Review, and (6) a summary and conclusions.

In regard to the economic impacts of global warming, Part II pointed out that 80 to 90 percent of the proposed impacts are subjective, being attributed to “non-market impacts and “catastrophes with little further definition provided”. These impacts are further amplified by the fact that business as usual (BAU) as defined in the Stern Report does not take into account economic pressures for conservation, and adoption of new technologies because they are profitable. Because the Stern Review deals with the long run, such factors will change even in a BAU scenario.

Just as the Stern Report is pessimistic in regard to costs of global warming, it is grossly optimistic in regard to the costs of mitigation. One topic discussed in part II was revenue recycling in which “some emission pricing policies (taxes, auctioned permits) generate revenue for the government, and this added revenue could be used to finance a cut in other tax rates”. Only economists could think that this is a benefit. Wealth is created by efficiently producing things. Capturing CO₂ and storing it provides no wealth and only adds to our costs for living. The fact that revenues are raised by taxing emissions merely transfers the tax burden from one group to another; it creates no wealth.

Part II also discusses the discount rate. However, their discussion is not as clear as that of Nordhaus (Section 8.2.2).

A number of comments were published in response to the “Dual Critique”. These were rebutted. The reader is directed to Volume 8 of *World Economics* (2007).

Meanwhile, governments continue to set quotas for increased reliance on renewables for electric power production, ignoring the technical difficulties in implementing these goals.¹

Starting with the Stern Report, the economists have taken over the business of estimating costs for implementing draconian reductions in carbon emissions. Since the economists almost always get things wrong, that is not very encouraging. The *MIT Joint Program on the Science and Policy of Global Change* has been cashing in on the current fear of global warming with a series of funded studies on the economics of carbon emission reduction. One report of note is Paltzev *et al.* (2009). This report considered three scenarios: (1) constant emissions rate from 2008 to 2050

¹ On March 2, 2011, the California State Senate voted 26-11 to require the state's investor-owned utilities to get 33% of their power from renewable energy sources by 2020—up from the 20% currently required—a requirement that manifestly cannot be met.

totaling 287 billion metric tons of CO₂-e (CO₂ equivalent in all greenhouse gases), (2) linear reduction in emissions from 2008 to 2050 down to a 50% reduction in 2050 totaling 203 billion metric tons of CO₂-e, and (3) linear reduction in emissions from 2008 to 2050 down to an 80% reduction in 2050 totaling 167 billion metric tons of CO₂-e. It is noteworthy that they mention that because of the current recession, they downgraded their estimates of future GNP, resulting in a reduction in emissions of 20% compounded over 40 years. This suggests that the best (and perhaps only) way to meet the 80% reduction target is to have a permanent recession. The “reference scenario” used by Paltzev *et al.* (2009) is in some ways a rosy picture. It assumes that with no policy at all, the annual U. S. emissions of greenhouse gases in units of CO₂ equivalent will slowly rise between 2008 and 2050 from about 7 to 11 billion tons per year (contrast this with our Figure 6.9a). Over this same period, the U. S. GNP is estimated to rise from \$12 trillion to \$37 trillion.

Unfortunately, the definition of GNP used by economists includes almost any kind of activity; yet the thing that we are really interested in is activity that produces wealth. Wealth is produced by activity that efficiently produces goods and services that better the quality of life of the people. Consider the hypothetical case of employing 200,000 bean counters to monitor CO₂ emissions at factories and power plants across the country. The government would take credit for creating 200,000 jobs, and the GNP would value this activity at something roughly like \$300,000 per person, adding up to \$60 billion. But these people would produce nothing of value for the population and would not add to the wealth of the nation. On the contrary, they would be a drag on the wealth of the nation because taxes would be needed to raise the \$60 billion needed to pay for the bean counters. Of course, the proponents of CO₂ reduction would argue that these activities would improve the quality of life by stemming global warming, and if the global climate models are correct, and if the alarmist estimates of impacts of global warming are correct, they would have a point. At the same time, the projections of increasing GNP over the next 40 years assure that as the cost of reducing CO₂ emissions builds up, the cost will appear more moderate when written as a percentage of GNP. According to Paltzev *et al.* (2009) the “welfare change” associated with the 80% reduction scenario reaches about 2.5% for the decade 2040 to 2050. Multiplying by an average GNP of 40 trillion dollars during that period implies a cost of a trillion dollars a year. Paltzev *et al.* (2009) also estimate that during the 2040 to 2050 decade, the cost of CO₂ removal is about \$200/ton, which when multiplied by ~70% of 10 billion tons per year, amounts to \$1.4 trillion dollars per year. This assumes that the results of Paltzev *et al.* (2009) are correct. Actual costs always seem to be much higher than those predicted by economists.

Prior to the late 1990s, one might have winced at the thought of taking on a charge of a trillion dollars a year. However, since then, trillions of dollars are acquired by borrowing. There is an economic nirvana. The U. S. Government can spend as much as it pleases, and if it does not have the tax revenues to cover these expenditures, it simply borrows. As long as there is a more or less permanent recession, the demand for money is low, interest rates are equally low, and the government can spend trillions more than it takes in. With the prospect of permanent recession facing us, this system should work for the foreseeable future.