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# Economic review: summit is not just a waste of time

By Anatole Kaletsky

The Johannesburg summit on sustainable development has been widely ridiculed for emitting more hot air than a coal-fired power station. Tony Blair's African speeches have certainly left us no wiser about his personal plan to save the world. Yet behind all the empty rhetoric, the cynical photo-opportunities and the bureaucratic self-indulgence, some enormously important issues have been opened up for discussion in the past two weeks.

In saying this, I do not mean to contribute to the hysteria about mankind's survival and the threat posed by global warming to life on earth. Still less do I believe that "Africa is a scar on the conscience of our world and the world has a duty to heal it", to quote Mr. Blair.

Global warming may well be a serious threat to human welfare. The poverty, disease and barbarism rampant in much of Africa is certainly an indictment of the way that almost all African countries have been run in the colonial era and the post-colonial decades. But the outside world has neither the moral authority nor the will to stop Africans committing mass suicide through Aids. The true scale of climate change

and its effect on mankind's future, will be unclear for many decades, probably until most of us are dead.

Both as an economist and a human being I have always believed in focusing on the present and the immediate future, leaving the long-term to look after itself. The reason for doing this is not a contempt for future generations, but quite the contrary. Any attempt to look many decades ahead and then to inflict our flawed ideas on future generations, is an exercise in overweening arrogance.

Moreover, the experience of the past two centuries suggests that the generations of the future will be infinitely cleverer than we are. They will devise solutions to their problems with an ingenuity that we cannot begin to imagine today (Tuesday). It is not just lazy and selfish to leave the solution of many long-term problems to future generations; it is rational. It is right to delay difficult decisions as long as possible in the hope that "something will turn up" and only to make painful choices at the eleventh hour.

Having laid out this skeptical credo, let me jump straight to my personal conclusions from Johannesburg. The homilies on aid, disease

and sanitation will be of little value until we see dramatic political changes in the poor countries themselves. The fact is that competent and honest economic management, plus the avoidance of wars, are infinitely more important conditions for development than any conceivable inflow of external aid. But turning from the pieties on poverty to the environmental negotiations which were the summit's real issue, Johannesburg could go down in history as one of the major events of the early 21st century, eclipsing even September 11.

Firstly, the summit has made progress on such urgent environmental issues as fish stocks, deforestation and water supplies. The damage to human welfare from over fishing, uncontrolled logging and water pollution has gone so far and has become so palpable that these problems easily pass the eleventh-hour test suggested above. Secondly, and even more importantly, the summit has brought climate change to the centre of attention. It could mark the start of a period of much more intensive government intervention and business activity on carbon emissions and energy policy, at least outside the US.

Despite my general scepticism about long-term planning, I think such action could be beneficial, not only to our children's environmental future, but also to our own prosperity and safety and even to global economic growth. The idea that trying to control the human contribution to climate change could be an economic opportunity, and not just a sacrifice, has long been the missing element in the global warming debate. The fact is that a concerted global campaign against climate change could present opportunities of at least three kinds.

The first benefit would be scientific and technological progress, as moribund industries such as carmaking and energy extraction were given incentives to move to the cutting edge of technological progress. Government subsidies for energy research could have far more productive spin-offs than defence and space programmes. It has always struck me that car manufacturers and oil companies reveal extraordinary managerial incompetence when they oppose government regulations to reduce emissions, increase fuel economy and develop new zero-emission engines. These companies are at present stuck in commodity businesses

with ever-dwindling profit margins, few competitive advantages and a dinosaur image among investors, leading to extremely low stock market valuations. They would be far better off emulating computer companies and competing in the development of new technology. Government regulations to reduce emissions would help them to limit competition, thereby increasing, rather than stunting, their profits.

The second benefit would be geopolitical stabilisation, as fundamentalist Islamic countries such as Saudi Arabia and Iran lost their grip on the world's jugular through the oil price.

The third benefit would be greater trade integration and the possibility of a moderate redistribution of income from rich countries to poor.

To see why this might be so, consider the ambitious target for reducing carbon emissions suggested two years ago by Britain's Royal Commission on Environmental Pollution. Its proposal was to reduce emissions by 60 per cent by 2050, possibly through an international agreement called Contraction and Convergence, which has been much discussed in Johannesburg. This would give every country a quota for carbon emissions,

based on its population and would allow countries to trade these emission rights. This would gradually reduce worldwide carbon emission and encourage the development of more efficient technologies. In the meantime, it would ensure a flow of funds from rich countries to poor ones, which, because of their lower levels of car ownership and industrialisation, would have surplus emission rights.

This Contraction and Convergence concept, illustrated in the charts above from the website of the Global Commons Institute, is only one of many market-based proposals designed to create incentives for big emissions cuts without unduly disrupting global economic growth.

Yet politicians, business lobbies and anti-growth environmentalists have all, for their own reasons, emphasised the economic sacrifices required to control climate change. We hear constantly of the limits to growth implied by energy conservation and the mind-boggling trillions of dollars that will have to be sacrificed either to reduce global warming or to cope with its destruction.

Yet all these horrific figures are meaningless unless presented in context. For example, Mr. Blair noted in Africa that

the Kyoto protocol would only reduce greenhouse emissions by 1 per cent, whereas the British Government believes that a 60 per cent reduction is needed. Given that President Bush has put the cost of meeting the Kyoto targets at several hundred billion dollars, a price he regards as unacceptable, what hope could there possibly be of making any worthwhile progress?

But what Mr. Blair has failed to point out in his messianic fervour, is that the ambitious 60 per cent target is only due to be achieved by 2050. The magic of compound interest could make this quite feasible without any undue economic sacrifice. According to the authoritative report published in February this year by the DTI's inter-departmental analysts group for Britain to meet the 60 per cent target would require a reduction of 4.3 per cent a year in the intensity of carbon emissions, assuming GDP growth continued at its long-term trend rate of 2.25 per cent.

This would be only slightly higher than the historic trend of carbon intensity reduction, which has been running at 3 per cent a year since 1970. Using a slightly different methodology, the same report concludes that the cost of reducing carbon emissions by 60 per cent in 2050 and then stabilis-

ing them from that point onwards would be equivalent to between 0.2 per cent and 1.5 per cent of GDP.

Even in the absence of firm evidence on the precise scale or effects of global warming, this would be a very small price to pay for the potential benefits of reducing air pollution, not to mention the political and technological breakthroughs mentioned above.

In Johannesburg, the concept that global action on climate change could be an economically beneficial exercise, instead of an immense sacrifice began to make a belated appearance. This was partly because many environmental organisations which have started to engage into a more a constructive economic dialogue with businesses and governments instead of trying to turn the global warming issue into a weapon in a global war against capitalism and modern science.

Modern science and market economics, far from being the enemy of the environment, are by far the most powerful mechanisms ever developed for achieving human objectives.

If the world really needs to be saved, they are by the best tools available to mankind. IT is time to put them to good use.