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Global CIO Outlook

The Economic Incentives of Climate Change



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As events here in Davos head into the home stretch, the conference hosted by the World Economic Forum, an invitation-only affair, has once again proven its power to attract both the important and self-important. In a lot of ways many of the attendees clearly hold themselves in high esteem.

The issues of climate change have dominated the entire conference. The importance of the topic cannot be overstated. Almost every attendee has commented and sometimes lectured on the responsibility of diverse stakeholders to urgently solve the problem.

Yet beyond moralizing, few real and concrete proposals were offered by various speakers.

When confronted with the possibility that the UN's 17 Sustainable Development Goals (SDGs) may not be realized by 2030, the cognitive dissonance of many participants is to attack the messenger before examining the facts.

The truth is that in the first five years since the SDGs were promulgated, very little progress has been made to reaching them on schedule. Based on the underlying trends it is possible that the goals may not be realized until the end of the century. If the causes of climate change are proven to be real, then the world will likely reach a tipping point well before the goals—which were designed to allay catastrophe—are obtained.

I have found it alarming that any attempt to highlight the facts around the lack of progress is met with scorn and derision. Attacks range from being labeled as a heretic to someone who favors climate change. Yet, responsible responses are few and far between.

Common theories supporting a sudden acceleration in progress include new technologies and hope. Failure to convert to this practically religious faith that all will be well by the end of the decade is tantamount to treason.

The truth is that existing technologies to reduce carbon emissions already exist but are not being implemented on a scale necessary to achieve the goal. For instance, it is well established that it is cheaper to generate a kilowatt of electricity from solar than it is from fossil fuels. Yet, at same time, the fossil fuel energy complex barrels ahead by increasing output whether in the form of oil or one of its primary products, electricity.

With the clear evidence that the solution exists, why do the carbon industries stick to their antiquated ways of producing energy? Why do policymakers continue to enable it? Simply it is a combination of vested interest and huge legacy costs which have to be amortized through the income statement.

If the advertised crisis is to be avoided, policymakers need to establish a strong set of economic incentives. A carbon tax associated with offsetting reductions in the income tax is just one way to address the issue. There are other ideas that exist that should be the focus of discussion.

It is an inconvenient truth that stakeholders will by and large be driven by their own economic self-interest. This is a concept that even predates Adam Smith.

The time has come for the moralizing and greenwashing that dominate much of the discussion to end and realistic practical solutions to become the primary focus of debate.

The World Economic Forum is an excellent place to air these ideas and promote their advancement. Perhaps next year the conference participants will focus more on solutions and less on hysteria.

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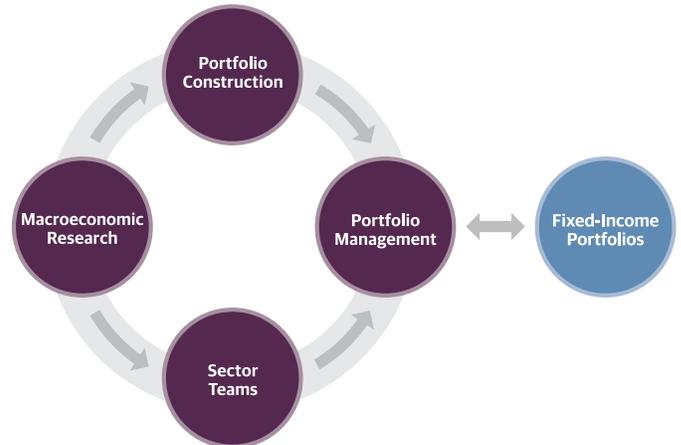
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