

TIME FOR AN ENVIRONMENTAL NEW DEAL

By Toby Sanger

In his otherwise excellent report “The Economics of Climate Change,” Sir Nicolas Stern states that climate change “is the greatest and widest ranging market failure ever seen.”

Close, but no cigar. At least, not yet. The science and the seriousness of the global warming problem is not disputable. However, it is debatable whether climate change can be awarded the dubious honour of greatest “market failure.”

Stern, the former chief economist of the World Bank, estimates that unless we act to reduce global warming, the world will suffer a decline in living standards of five per cent to 20 per cent per person. While the damage could turn out to be higher, it is still much lower than the economic decline during the Great Depression, which amounted to 40 per cent per person in the United States and 44 per cent per person in Canada.

However, the issue is not what represents the greater economic failure. Unabated climate change could lead to the widescale destruction of our species and other species, far beyond the cold realm of economic calculus. The issue is whether we can learn from past experience to prevent future damage and suffering.

The Great Depression resulted in a fundamental reform of our economic system, with new economic approaches and the birth of many new public programs and institutions, as part of the New Deal in the United States and a number of similar programs in Canada. While constantly under attack, these measures – such as active management of the economy, unemployment insurance, minimum wages, workplace standards and social programs – have proven highly successful, providing greater levels of democracy in our public institutions and increasing economic and social equality.

The causes of the Great Depression are still debated today, but, one way or the other, they involved a range of different failures in private markets and government policies – and so they merited a comprehensive reform. The challenge facing us now is also very complex. As Stern has stated, “the economics of climate change is as broad-ranging, deep and complicated as any other area of economics. Indeed, it combines most of the difficulties of other areas of economics.”

Some parts of the solution to climate change are straightforward. One is to put a price on carbon dioxide and other greenhouse gas pollution to account for the damages they cause. This can be done through carbon taxes or through a cap-and-trade system with substantial sale-of-emission permits to industry. These are necessary measures that need to be put in place without further delay, but they are far from sufficient.

Unfortunately, some people think we can solve the problem of global warming simply by attaching a price to pollution and privatizing the problem. As any decent economist knows, private markets are rife with many different types of market failures: not pricing pollution is only one of them. In fact, human society and our environment constitute massive multi-dimensional “market failures” on many levels.

It would be highly inefficient – either ineffective or extremely disruptive – to rely solely on a carbon tax or other economic instruments to confront the problem.

The climate is a global public good. Indeed, it is one of the ultimate public goods. Because of this, we need strong and comprehensive public leadership in different forms to tackle the problem of the climate crisis.

Climate change is not just about global warming. It is also fundamentally a matter of increased risk and uncertainty. The uncertainty about the impacts of climate change is compounded by uncertainty about government policy, changing technology and market conditions. This means it is absolutely essential for national governments to set credible long-term policies, provide accurate information, undertake research, educate the public and establish standards for technology, energy efficiency and planning.

Governments will only earn the public's trust if they set an example by cleaning up their own house and operations. For instance, a large-scale program that included retrofitting public buildings, adapting our public infrastructure for climate change, investing in public transit, and improving planning would go far in convincing the public and business that it is seriously time to act. It would also help develop the market for many related products and technologies.

Unfortunately, with its plans to sell off public buildings, privatize operations and force other levels of government to engage in public-private partnerships (P3s), the federal Conservative government is pawning off its ability to set an example. Cash-strapped municipalities need more funding for climate change efficiency and adaptation investments, and not to be shackled with costly long-term payments for P3s that severely restrict their ability to make improvements and show public leadership.

The second major area where governments need to show leadership is in developing new technologies, standards and infrastructure that are necessary to increase energy efficiency and reduce greenhouse gas emissions. The dynamic and uncertain nature of technological progress means that picking single winners is risky. Instead, governments need to help develop a portfolio of leading technologies and establish leading standards that provide the commitment to move forward.

Some of this involves basic research that private businesses don't do enough of on their own. But it also involves building infrastructure, setting standards and building critical mass. California's proposed "hydrogen highway" is an example. If left to the risk-averse and profit-maximizing dictates of private business, this would take far too long to develop. In Canada, our electric utilities could show leadership by becoming major providers of renewable energy.

Establishing a credible plan will encourage business to make new investments. Still, most of Canada's private industry has a notoriously poor record of investing in research and development and creating innovations, despite their enormous profits and generous tax subsidies. Many of Canada's major innovations have been developed directly through publicly funded and directed research councils and universities. Private and commercial-based research and development is very important, but it builds on basic research and is focussed on private profits. We need more basic public research focussed on increasing public benefits.

A national Green Jobs Investment Fund would help our suffering manufacturing and processing sectors to innovate, invest in new technologies and build good jobs for Canadians in these rapidly expanding areas. (Ontario recently announced a "Next Generation Jobs Fund" along these lines.)

Thirdly is the issue of equality and environmental justice. As the Stern report emphasizes, poor countries and poor people in any given country will suffer the most from climate change, even though rich countries and higher-income people are most at fault for generating higher emissions.

Lower-income people will not only suffer the most from the direct effects of climate change; they will also be disproportionately affected by increased fuel and food prices, and have less ability to adapt to climate change and make investments in energy efficiency technology. In economic jargon, they are “capital constrained.”

The impacts of Hurricane Katrina and the 2003 heat wave in Europe, in which 35,000 people died, showed these impacts in stark terms. A large majority of the people who died were the elderly, sick and poor, who couldn't escape the heat or floods. Lower-income people live in higher risk areas, work in more vulnerable sectors, and have less ability and fewer resources to make changes.

Health, social services and community facilities need to be improved to help all people cope with the changing climate, heat waves and extreme weather events. Public support needs to be provided to help lower-income families adapt to climate change, retrofit their homes, promote conservation and reduce use of fossil fuels. Education, training and information programs are needed to support these changes. A Just Transition Fund needs to be established to help those in jobs that will be affected by new policies related to climate change.

Carbon taxes and emission permits will lead to higher prices for fossil fuels, food, transportation and all sorts of goods and services. This will disproportionately affect lower-income and middle-income families, who spend much more of their budget on these necessities. Carbon taxes and selling emission permits need to be accompanied by – and can easily fund – progressive tax reform so that lower- and middle-income families do not suffer from these necessary measures.

Finally, we need to use this opportunity to strengthen public trust, inclusiveness and democracy. The Kyoto Protocol is a rare and important example of nations sacrificing their short-term interests and working together for the greater good of future generations.

This type of collective action needs to be built upon both internationally and nationally. Everyone is a stakeholder in our future. All sectors of society and levels of government need to be involved in developing and implementing a national action plan on climate change, using a transparent, inclusive and accountable process.

Instead of developing plans unilaterally – or scaremongering, keeping information secret, and privatizing solutions – the federal government should create an open, transparent and public Climate Change Agency that would work with all governments and stakeholders to coordinate a national strategy, provide credible research and information, and fund research, projects, programs and participation.

In summary, we need a “New Deal” for the environment, through which our governments take action in four areas: demonstrating leadership, investing in the future, promoting equality and strengthening our democracy.

Prime Minister Stephen Harper would do well to learn from the mistakes of his predecessor, R.B. Bennett, who was both Canada's Depression-era Conservative Prime Minister and also an MP from Calgary West.

Despite his often virulent right-wing and laissez faire views and policies, even “Iron Heel Bennett” belatedly realized that his free market approach wasn’t working and finally introduced a few New Deal policies to deal with the economic crisis. But it was too little, too late and the Conservatives were crushed in the 1935 election.

The question is: Will Stephen Harper will learn from political history and economics and demonstrate the public leadership necessary to confront the climate crisis? Or will he cling stubbornly to a narrow ideological view and thereby prove Stern right by making climate change an even greater “market failure” than the Great Depression?

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