

Adjusting to climate risks is only prudent

[Henry Ergas](#) December 13, 2019



Illustration: Eric Lobbecke

According to Kenneth Hayne, former High Court judge and commissioner of last year's financial services royal commission, Australian company directors need to spend more time worrying about climate change.

Reading the royal commission's report, one might have thought they should have other priorities on their minds, such as not breaking the law. And this week's ruling from the New York Supreme Court, dismissing - charges that ExxonMobil committed fraud by not disclosing climate change-related liabilities, casts serious doubts on hyped-up claims about directors' responsibilities for carbon emissions.

But with bushfires blazing, our cities enveloped in smoke and the drought inflicting a punishing toll on farmers and country communities, Hayne's

suggestion that too little is being done to avert the risks of climate change merely adds to what has become a deafening roar.

So far, the government has largely ignored the mounting chorus, preferring to focus on practical measures to address the immediate crisis. However, by not engaging, it loses the public debate and wastes the opportunity to consider whether the approach successive governments have adopted continues to make sense.

There are, in effect, two ways of dealing with risks. The first is to reduce their likelihood, the second to reduce their severity. If there is a lesson to be drawn from the disasters striking large parts of the continent it is surely that we have the balance between those wrong.

After all, the greatest responsibility of a government is to protect its citizens. But instead of concentrating on ensuring that Australians can cope with whatever dangers a changing climate may bring, vast resources have been consumed in a largely futile effort to prevent those dangers from materialising.

Precisely estimating the quantum of those resources is complicated by the opaque nature of the policies at issue, with a tangled maze of often conflicting initiatives at a state and federal level.

Nonetheless, an admittedly very rough estimate can be derived from the data. Since 2005, emissions per unit of GDP have declined by a third, reducing total emissions to about 200 million tonnes below the level they would otherwise have attained. While the precise number is arguable, it is reasonable to assume that out of that total, at least 70 million to 80 million tonnes is due to public policy. Treasury's modelling of the carbon tax implied that achieving those reductions would require an economy-wide carbon tax in the order of \$25 to \$30 a tonne. It also found that the "excess burden" of a carbon tax was between three and four, meaning that each dollar of revenue the tax raises reduces GDP by \$3 to \$4.

Given those results, the current policies have an economic cost of between 2 and 4 per cent of national income. Even going to the lower end of that range, we spend at least as much on reducing carbon emissions as on national defence.

Moreover, those costs will soar in the near future if the states, led by Victoria, forge ahead with extraordinarily inefficient policies aimed at cutting emissions to zero.

But while the costs of our climate change policies are high and rising, the gains in terms of risk reduction are trivial.

It is uncontentious that those gains depend not on Australia's efforts but on those of the world as a whole. And it ought to be equally uncontentious that global mitigation on the scale successive climate change conferences have demanded is as remote as ever. There is, for example, no reason to believe that China, India, Brazil and Indonesia, whose aggregate emissions increased by 80 per cent from 2005 to last year, will materially reduce their emissions any time soon. Equally, almost regardless of the outcomes of next year's elections, US emissions are likely to resume rapid growth as the replacement of coal by natural gas reaches its natural limits.

Since those countries together account for more than half the global total, the ambitious emissions reduction targets the UN has repeatedly announced are plainly out of reach. And with those targets not being met, the global stock of emissions will continue rising.

Obviously, that doesn't mean that we should free-ride on global efforts. Rather, our interest in a rules-based international order requires that we be, and be seen to be, good global citizens. Yet neither should we be dupes pursuing, at great cost, courses of action that are set to fail.

Our commitments should therefore be such as to ensure we remain a

credible participant in international negotiations but not any greater than that. And although quite how much that requires by way of abatement is naturally controversial, it would be foolish to argue that it demands wasting several percentage points of GDP.

On the contrary, the surest way to show we take climate change seriously is to refuse to continue throwing resources at abatement in the absence of effective global agreement, while instead acting to protect Australia from whatever threats climate change may pose.

Given the current stock of emissions, some of those threats, such as rising sea levels, are, it seems, "baked in", regardless of what happens to global abatement. That may equally be the case for other possible consequences, such as a greater incidence of the stratospheric warming events that have aggravated this year's fires. And higher temperatures and stronger and more persistent winds could reduce the scope for hazard-reduction burning, making large-scale fires more likely. If those claims are correct, reorienting our climate change policies towards greater emphasis on adaptation is absolutely vital.

But even if one discounts them, ensuring greater water storage in dams, better managing vegetation and discouraging development in bushfire-prone areas, and achieving more resilient settlement patterns in coastal areas would hardly be wasteful.

Rather, those initiatives would, at the very least, leave Australians better placed to deal with the harsh realities of our continent. And if the risks do materialise, they might prove to be the insurance that makes all the difference. As a result, no matter how one views the science, shifting the policy balance from avoidance to adjustment is the only prudent course of action.

Of course, none of that will satisfy the fanatics, or curb their cries for self-inflicted punishment on an ever-grander scale. Like Elijah in Kings,

19:11, faced with the raging flames, the gathering storm and the shock and horror of the quake, they allow their unleashed passions to drown out reason's "still, small voice". But if anything is certain it is this: when that still, small voice is silenced, wisdom, hope and progress are inevitably silenced with it.