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Can a dose of recession solve climate change?

Subverting the growth-at-all-costs model is appealing but not politically feasible

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Britain has just suffered its weakest period of growth since the recession of the early 1990s. The economy "ground to a halt" in the second quarter of the year - the worst performance since the first quarter of 1992. The signs are that the news will get even more grim in the second half of this year.

Note the deliberate use of language. In the world of conventional economics, countries suffer periods of weak expansion but enjoy spells of strong growth. When the economy fails to grow that is axiomatically a worse performance than when it does. It is "grim" news that Britain may fulfil the technical definition of recession - two consecutive quarters of negative growth - in the second half of 2008.

This may strike some as a strange way of looking at things. Sure, the global economy is slowing. But what's so bad about that? Is it, in fact, bad news that the world economy will no longer grow at its recent rate of 5% a year? And if the answer to that question is "no", wouldn't it be good news if this modest retrenchment was turned into a full-blown slump? Indeed, why stop there? Shouldn't those who fear for the future of the planet pursue something akin to the Great Depression of the 1930s?

It's an interesting thought. Logically, if the obsession with growth at all costs has increased emissions to the point where rising temperatures pose a threat to mankind's existence (as many experts believe) then a prolonged period of slow or negative growth will limit the damage to the environment. At the very least, it would provide a breathing space to come up with an international agreement on how to tackle the problem.

There are many reasons why it is not quite as simple as that. My rudimentary understanding of the science of climate change is that concentrations of greenhouse gases have been building up over many decades, and you can't simply turn them off like a tap. Even a three- or four-year 1930s-style global slump would have little or no impact, particularly if it was followed by a period of vigorous catch-up growth. On a chart showing growth since the dawn of the industrial age 250 years ago, the Great Depression is a blip. Similarly, Britain's trade deficit always comes down in recessions because imports go down, but then widens again once the economy returns to its trend rate of growth.

Politically, recessions are not helpful to the cause of environmentalism. Climate change is replaced by concerns about unemployment and stimulating growth. To be fair, politicians respond to what they hear from voters: Gordon Brown's survival as prime minister depends on how well his package of economic measures is received, not on what he does or doesn't do to limit greenhouse gases.

Looking back, it is clear that every advance in the green movement has coincided with period of strong growth - the early 1970s, the late 1980s and the first half of the current decade. It was tough enough to get world leaders to make tackling climate change a priority when the world economy was experiencing its longest period of sustained growth: it will be mightily difficult to persuade them to take measures that might have a dampen growth while the dole queues are lengthening.

Those most likely to suffer are workers in the most marginal jobs and pensioners who will have to pay perhaps 20% of their income on energy bills.

Hence, recession does not offer even a temporary solution to the problem of climate change and it is a fantasy to imagine that it does. The real issue is whether it is possible to challenge the "growth-at-any-cost model" and come up with an alternative that is environmentally benign, economically robust and politically feasible. Hitting all three buttons is mightily difficult but attempting to do so is a heck of a lot more constructive than waiting for industrial capitalism to collapse under the weight of its own contradictions.

Richard Douthwaite, author of the Growth Illusion in the 1990s, has come up with one possible way forward, which he calls Cap and Share. His analysis begins with three propositions - firstly that there needs to be a ceiling on carbon emissions at their current level; secondly, that rising oil and gas prices are leading to windfall gains - so-called economic rents - for oil producing countries and energy companies; and thirdly, that this redistribution of wealth will have the same sort of detrimental impact on the global economy and its tottering financial system as the first wave of petro-dollars from the Opec countries in the 1970s and early 1980s.

According to Douthwaite, most oil fields were developed on the assumption of oil prices at \$20 (£10) a barrel. Last year, the cost of crude averaged \$64 a barrel, and Douthwaite estimates that half of the \$1,975bn paid for oil last year was a "scarcity" rent to fossil fuel producers. That represented a loss of income of \$150 to each person on the planet. Oil prices look certain to average well over \$70 a barrel in 2008, and at \$120 a barrel, Douthwaite says oil producers would be making excess profits worth

around 6% of global output.

"The problem with that is that the producers are not buying and consuming anything like that part of the world's production," he added. "Instead, they are either lending the rent out through the wholesale money markets or using it to buy stakes in banks or property in heavily oil dependent countries."

Douthwaite's idea is that everybody should get their fair share of the rent that derives from the scarcity of fossil fuels. There would be a new world energy agency with the task of cutting carbon emissions and it would do so by issuing permits for the amount of CO₂ it believed consistent with this objective. These permits would be scarcer than the supplies of fossil fuels, which would raise their price. Consumers would realise their share of the economic rent from the sale of such permits to the oil producers. People in the poorest parts of the world, with low energy consumption, would gain most.

The proposal is certainly an alternative to the "growth-at-all-costs model" and has definite economic attractions - the avoidance of a slump caused by the ferocious squeeze on energy consumers. Whether it is politically feasible is another matter. Douthwaite believes his scheme may be considered hopelessly utopian. Sadly, he may be right.

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