The Double Crisis of the Economy and the Climate: Risk and Opportunity

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We face two crises: a deep global financial crisis, caused by inadequate management of risk in the financial sector, and an even deeper planetary climate crisis, the effects of which may seem more distant but will be determined by the actions we take now.

The scale of risk from climate change is altogether of a different and greater magnitude, as are the consequences of mismanaging or ignoring it. The United States in particular has a window of opportunity to act on the current financial crisis and, at the same time, lay the foundations for a new wave of growth based on the technologies for a low-carbon economy.

President Obama in his speech to Congress last Tuesday, and in his budget on Thursday, explained very clearly that we need to address both of these challenges and he outlined a broad approach for both. US leadership could generate a powerful response from across the world, making possible an agreement at the United Nations climate change conference in Copenhagen in December on a scale necessary for the management of the risks of climate change.

We know that we will eventually emerge from the global financial crisis, although mistakes in management can affect its depth and duration. However, mistakes in managing the risks of the global climate crisis may be irreversible. As noted in *Making Globalization Work,* if we had a thousand planets, we might continue with the reckless experiment on which we are embarked, and if the likely disaster turns out to occur, we could move on to another. Unfortunately we do not have that luxury: we have only one planet.

The current financial crisis originated from the housing market bubble, and it was preceded by another bubble, the dot-com boom. We cannot replace these bubbles with yet another bubble. The investments necessary to convert our society to a low-carbon economy, investments which can change the way we live and work, would drive growth over the next two or three decades. They would ensure that growth—with accompanying improving in standards of living—is sustainable. The path that we have been on is not.

These investments can stimulate the economy in the short run, but their long run impacts are even more important. They will improve the U.S. competitive position. As the world moves to a low-carbon economy there will be a competitive advantage for those who embrace these new technologies. The pathway to a low-carbon economy is full of opportunities: the US, thanks to its dynamic private sector and its research efforts in low-carbon technologies, is in an advantageous position to harness these technologies here and sell them abroad. If the world moves towards a low carbon economy, we will have a natural competitive advantage in these new technologies.

The economic crisis will leave the US and other economies greatly weakened, and it will be imperative to increase efficiency in every way that we can. One area in which there is ample room for improvement is in the energy efficiency of businesses, consumers and the government. According to a recent paper by the Peterson Institute, investments in private and public buildings are promising: spending $10 billion in the US to weatherize homes or retrofit federal buildings could create and sustain up to 100,000 jobs between 2009 and 2011, while saving the economy $1.4 to $3.1 billion a year between 2012 and 2020.

Private investments are driven by market signals. These signals, and indeed the measurement of output itself, are distorted because we have been pricing one of the world's scarcest resources— the value of a "good" atmosphere, or the societal costs of emissions, which lead to a "bad" atmosphere—at zero. Not surprisingly, this has led to inefficient outcomes, with distorted production and innovation, with too high emissions and too little effort devoted to energy conservation and research.

This crisis has brought home deficiencies in our measurement of output. Yes, we had a moderately high GDP for a few years, but those statistics didn't reveal the weaknesses that lurked beneath the surface. I am chairing an international Commission on the Measurement of Economic Performance and Social Progress. Much of the debate about the trade-off between economics and the environment is based on false premises, on a mismeasurement of true, sustainable output.

As creative entrepreneurs turn their minds to the challenges posed by a low-carbon economy across the developed and developing world, the excitement and drive of innovation is evident. This can be the spur to *real* growth that has so long been missing.

I want to conclude by observing that our shared atmosphere is the quintessential global good: the problems of global warming cannot be attacked without the participation of all countries, and without the leadership of America. The world has been waiting for the United States: there is now reason to believe that it is ready to lead. Nick will discuss at greater length the global response.