

What I Got Wrong About The Economics of Climate Change

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Many philosophers think of welfare economics as a science of efficiency. If you want to know which policies will produce the greatest benefit, ask a welfare economist. Their job is to think about what it means to call something a benefit, how to measure it, and then how to aggregate multiple benefits and dis-benefits together to arrive at an overall valuation. Philosophers think of this exercise in aggregation as the exercise of ranking policies in terms of their capacity to maximize overall benefits — an Efficiency-ranking.

Many economists also seem to think this way about their enterprise. They say things like, “The ranking of policies I produce is not to be confused with an inviolable decision rule. There are more factors relevant to decision-making than captured in my analysis. Economic analyses are not substitutes for political judgment.” Remarks like that, when combined with cost-benefit analysis’s focus on maximizing net benefits, reinforce philosophers’ view of welfare economics as a field concerned with a discrete policy-relevant factor, not with the full suite of policy-relevant factors.

It turns out that this view of welfare economics is often mistaken, and not realizing this was a huge problem for me in trying to understand the welfare economics of climate change. To illustrate, consider a standard argument found in the welfare economics literature on climate change: “Suppose we reduce the current generation’s standard of living to just above subsistence, and we use the savings to invest in projects that benefit future generations; the finite loss for the current generation will be swamped by the long-term stream of benefits accruing to an indefinite parade of future generations; but it is unjustified to impose such a sacrifice on the current generation; so we must discount the value of benefits to future generations, so that the value of the long-term stream of future benefits does not wind up greater than value of the current generation’s continued enjoyment.”

Philosophers from Rawls onward have read that economic argument and replied (I’m paraphrasing here): “You might be right that no generation should be forced to make crushing sacrifices for future generations. But that is irrelevant from the standpoint of someone who ranks policies in terms of their efficiency. It is perfectly consistent to say that the Crushing Policy is more efficient than the Non-crushing Policy, and yet to recommend the less efficient policy. In a slogan: Efficiency-rankings need not mirror DoThis!-rankings. Since you are in the business of providing Efficiency-rankings, not DoThis!-rankings, your reason for discounting the value of future benefits is not relevant to your brand of analysis. So stop doing it.”

I have made this argument myself in [published work](#).¹ What I did not realize, and what I think many other philosophers don't realize, is that many (but not all) climate change economists seek to capture factors that philosophers classify as non-efficiency factors. For example, William Cline [says](#)² we should not discount future benefits in cost-benefit analyses of climate change precisely because we are harming future generations and so their welfare matters more than it would if we were simply contemplating giving them a gift. Partha Dasgupta [says](#)³ we should discount the value of benefits to today's rich, not simply because they're rich and others are poor, but in part because today's rich world is harming future generations and so less weight should be given to their harmful interests. And Kenneth Arrow [says](#)⁴ we should discount future benefits because morality entitles all individuals to protect themselves against the crushing demands of a single-minded devotion to efficiency. What this shows, I think, is that philosophers (including me) have been mistaken in their assumption that the welfare economics of climate change claims to be a science of efficiency only. As philosophers typically conceive of efficiency, that assumption is just false.

Does this mean philosophers should revise their assumption? Maybe. But instead, perhaps climate change economists should revise their behavior. Perhaps, that is, welfare economists should abandon all attempts to reflect considerations of justice, rights, equity, entitlement, etc. in their analyses. That would make their enterprise more consistent and transparent — no longer would different economists' final rankings in terms of Net Present Value mask the different ethical decisions they made along the way.

Then again, since policy makers listen to economists and not so much to philosophers, maybe philosophers should encourage even more economists to move away from Efficiency-rankings and toward more ethically nuanced DoThis!-rankings. That way, climate change economics will be riper for philosophers to co-opt. It is an important question philosophers should be investigating.

¹ <https://philpapers.org/rec/KELEPA>

² <https://piie.com/publications/papers/cline20130107.pdf>

³ <http://www.as.huji.ac.il/sites/default/files/Discounting%20climate%20change.pdf>

⁴ <http://www-siepr.stanford.edu/workp/swp97004.pdf>