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The Financial Crisis and Our Response to Climate Change

An IISD Commentary

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November 2008

The financial crisis comes at a critical point in our response to climate change. Physically, increasing concentrations of greenhouse gases in the atmosphere bring us closer to the point of no return, where the scale of climate change would have extreme consequences; politically, the next 12 months are vital for the long-term commitments to reduce greenhouse gas emissions, as governments work to finalize a follow-up to the Kyoto Protocol.

Yet early commentary on the links between the financial crisis and our response to climate change paints a pessimistic picture. The usual viewpoint is that governments will focus on not burdening business and industry with extra costs and regulation at a time when the economy is fragile and jobs may be at risk; it assumes, therefore, a weakened political will to implement climate change policy in the short term, and reduced attention paid to long-term agreements. This line of thinking is apparently oblivious to the fact that the last ten years have seen little progress on either of these fronts, despite high economic growth.

It is clear that we cannot wait for perfect economic conditions before we act on climate change. It is equally clear that scaling back or postponing our existing responses is at odds with the long-term focus needed to address climate change.

The transition to a more sustainable economy requires a major extension to current responses. It will require international co-operation, large-scale financing across borders and the transfer of key technologies and techniques. There is limited scope for countries to take a stand if other countries postpone or scale back their activities. The developed world must lead, proving that its commitment to reducing greenhouse gas emissions applies whatever the economic environment and whether there is some pain to its own businesses, industries and interests.

Despite the pessimism, the financial crisis offers a range of opportunities to enhance and rethink our response to climate change. Perhaps most important, it has shown that faith in laissez-faire markets being able to deliver a range of economic, environmental and social benefits can be misplaced: governments must take greater responsibility for delivering policy goals. It has also shown that we must be more proactive at managing major risks to the economy.

Compared to climate change, the financial system is less complex, can absorb support more quickly and the impacts of any crisis tend to be reversible. Nevertheless there are also important similarities: the scale of support required to mitigate risk is similar and the fundamental threat to our economies is serious in both cases. The re-evaluation of risk must also take account of the novel technologies and techniques needed to change our path of greenhouse gas emissions. Such novel investments were often viewed by the financial sector as risky even before the financial crisis; responding to the increased risk aversion now seen will require a set of policies, regulations and agreements which give clear, long-term incentives to these vital building blocks of a sustainable future.

The long term is made up of a consecutive set of short terms. In the short term, there is almost always a reason why action should be postponed. The consequence of postponement and prevarication is stark: there will be a major response to climate change, but only once a crisis has occurred. Both the scale of such a crisis and the irreversibility of many of its consequences would make the impacts of the current financial turmoil look minor in comparison. If we ignore the long term, future generations will not regard our assessment of political realities kindly.