

WHY NOBEL LAUREATE NORDHAUS'S WORK ON CLIMATE CHANGE IS CRUCIAL

Relevant for: Environment & Disaster Management | Topic: Environmental Degradation - GHGs, Ozone Depletion & Climate Change

William D Nordhaus is one of the two economists who have been awarded the Nobel Prize in economics this year. Mr Nordhaus has been given the award for “integrating climate change into long-run macroeconomic analysis”. The announcement came on the same day when the United Nations Intergovernmental Panel on Climate Change (IPCC) released a special report calling for urgent action to control rising global temperatures in order to prevent irreversible damage from climate change. Under the business as usual scenario, the rise in average global temperatures will breach the critical barrier of 1.5 degrees Celsius between 2030 and 2052, the report says.

IPCC report's findings can be used to find fault with Mr Nordhaus's body of work. He has been arguing in favour of more moderate reduction in carbon emissions in contrast with the work of economists such as Nicholas Stern, who authored the famous Stern report on climate change released by the British government. The two economists reach different conclusions because they assume different discount rates, which capture the trade off between future consumption and present consumption.

Discount rates are crucial in the fight against climate change because reducing emission of green house gases (GHGs) in order to control rising temperatures, and safeguard future sustainability, is bound to extract an economic cost for the present generations. Tempting as it may sound, it will be unfair and counterproductive to use Mr Nordhaus's assumption of higher discount rates to dismiss his contribution in developing our understanding of how to fight climate change. Even a cursory reading of his 2008 book, *A Question of Balance*, is enough to prove this point. Mr Nordhaus is unambiguous in saying that there cannot be any progress in the fight against climate change without raising the price of goods, which add to GHG emissions. He also argues forcefully that taxing carbon emissions is a much better strategy than subsidising so called green activities, pointing towards limitations of activities such as incentivising ethanol production.

Also, Mr Nordhaus does not claim to be the sole custodian of truth in the battle against climate change. “Sensible decision making [to fight climate change] requires a robust set of alternative scenarios and sensitivity analyses. But this is the role of committees and panels, not of individual scholars,” he writes in his book. At a time when the biggest economy in the world, the US, has reneged from the global consensus on climate change, economics can only take us so far in the fight to mitigate the threat of climate change.

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