

Marketplace



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The oil price rise has already forced the global warming guru Lord Stern to change his mind

As hellfire preachers have long known, people will listen to you if you can produce plausible forecasts of the end of the world.

The Stern Report — *The Economics of Climate Change* — judged that early “action” was needed to avert “major disruption of economic and social activity, on a scale similar to those associated with the great wars and depression of the first half of the 20th century”. It argued for a radical upheaval in energy use, with a major shift from fossil fuels to renewable sources, relying on confident predictions of carbon emissions for the next 100 years.

But a key assumption in the Stern exercise has been falsified in little more than two years. The report appeared in October 2006 and reflected work carried out earlier that year and in late 2005. At that time the price of oil was typically between \$45 and \$65 a barrel. The oil price is basic to any assessment of future carbon emissions, because a high price is a market force that — by itself, without government intervention — ought to cause substitution to alternatives.

Professor Lord Stern recognised that. “Are the stocks of fuels in the world large enough to satisfy demand?” his report asked (in section 7.6), and he even referred to fossil fuel scarcity as a possible “laissez-faire answer to the climate change problem”. But the subject was dismissed. After citing analyses by the World Energy Council and the International Energy Agency, Stern’s report concluded that fossil fuel was abundant. So, in its words, “there appears to be no good reason ... to expect large increases in real fossil fuel prices to be necessary to bring forth supply”, even though a big increase in price would be necessary to check fossil fuel consumption “if no other method were available”.

The oil price is wildly volatile and may well have changed by \$10 a barrel between the writing of this article and its publication. Nevertheless, who could overlook that in July this year the oil price exceeded \$145 a barrel and has stayed above \$120 a barrel for many months? An assumption vital to the conclusions in the Stern Report — that no large changes in the real oil price would occur before 2050 — appears to have been contradicted in short order.

Indeed, this is an area of public policy where two large bodies of literature, which share the same focus and concerns, seem to co-exist without any contact. One body of literature deals with the impact of carbon emissions on global warming, the other with the geological constraints on future oil production. The first body says that too much oil will

be produced in the 21st century, chucking ecological poison into the atmosphere and ruining us by making the planet uninhabitable; the second body says that too little oil will be produced in the 21st century, as not enough of the stuff is in the ground, ruining us because our energy consumption patterns are unsustainable.

The Stern Report contained no reference to any of the peak oil theorists, despite their obvious relevance to its subject matter. But Lord Stern does follow the news and is well aware that the energy market has been in turmoil. In an interview in the July 2008 issue of *Prospect*, his views on the oil price were markedly at variance with those in his report. “If oil stays up, which looks quite likely, it will drag gas and coal with it,” he said. “The price differential between wind, solar and geothermal, which are on the way down, and hydrocarbons, which are on the way up, will lessen. It will bring closer the day on which you can substitute one for the other.”

Admittedly, he did then add a qualification that, over the next few decades, recessions and crises would knock hydrocarbon prices downwards from time to time. But the inconvenient fact (dare one say “the inconvenient truth”?) stands. Lord Stern in his July 2008 persona thinks quite differently from Lord Stern in his October 2006 persona. Either a big rise in the real price of oil is likely or it is not. As an Oxford philosophy don might say, these are mutually exclusive categories. One must ask what Lord Stern really thinks about the question and even wonder whether he has any settled view at all.

Perhaps it is unnecessary to conclude by emphasising how central the global warming debate is to hugely important issues of public policy, which have a profound bearing on the living standards of everyone in Britain and around the world. The Stern Report is full of high-sounding admonitions and injunctions, but many of them are so global and airy-fairy that they cannot be pinned down to any tractable reality.

To give one example, we are told that “action to preserve the remaining areas of natural forest is urgent”. Has anyone told Lord Stern that, over those parts of the planet where natural forest was originally extensive, most of it was removed by man before the industrial revolution?

Alan Anderson, who interviewed Lord Stern for the *Prospect* article, says that, “listening to him”, you can believe “in a less cynical world in which decent Fabian LSE professors really are able to solve our problems”. I can’t.