

Prime Minister²
The last part is
a particularly good
one.

2nd November 1990

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ECONOMIC ASPECTS OF GLOBAL WARMING

You will want to be aware that economists from Government Departments, under Treasury chairmanship, have now produced two reports on the economic aspects of global warming. This is analytical work. There are no firm policy recommendations.

The economists' work ran in parallel with discussion in Misc 141, and informed the papers presented to that Committee.

The conclusions in the two reports are a useful counter to pressure to turn our economy upside down now to prevent global warming:

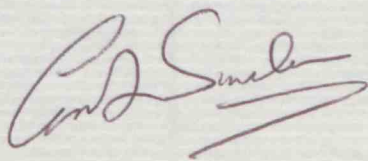
- We need to find the right balance between the cost of the damage which could be caused by global warming and our adaptation to it on the one hand; and the cost of restraining emissions on the other;
- But we do not have hard figures on either. The science is too uncertain to allow us to say what the cost of global warming might be to the UK. The exact cost of restraining emissions could be affected by new technological breakthroughs;
- We have therefore taken a judgement based on incomplete information, namely that the right balance for the UK is stabilisation of CO₂ emissions at 1990 levels by 2005 (to adapt Kant, it

has been necessary to make 'a decision on the basis of knowledge sufficient for action but insufficient to satisfy the intellect');

- Restraining emissions will involve transitional costs to the economy as production and consumption switch away from energy producing and energy intensive sectors to other areas. In the longer term the cost of energy will be higher and consumers' welfare reduced (though whether they perceive it that way is another matter - small cars, like fake furs, may become the vogue);
- Action by the UK alone, or by OECD countries alone, is quite pointless. Unless there is a truly international effort, energy intensive industries will move to those countries where there are minimal restrictions/taxes on emissions. The reduction in emissions from the UK/OECD could thus be cancelled out by emissions growth in such countries. Meanwhile both the UK and the rest of the OECD countries would lose competitiveness in the sectors affected.

Conclusion

There is nothing new in all this, but it does bear repetition.



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ECONOMIC ASPECTS OF GLOBAL WARMING

Thank you for your note on this which the Prime Minister saw over the weekend. She seemed particularly struck by the points in your second and final intents.

CAROLINE SLOCOCK

5 November 1990

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