



Presidential Climate Action Project

Climate Action Brief

Other Economic Tsunamis on the Horizon

September 24, 2008

The shock on Wall Street and the coming aftershocks on Main Street may put other pressing issues on the back burner in the final weeks of the presidential election campaign.

But if there's one lesson to be learned from the crisis in the financial world, it's that we need to do a better job of anticipating a looming disaster and preventing the damage before it's too late. So while we deal with the historic shakeup of our financial markets, we should be aware that there are other threats to the economy that, like tsunamis, threaten to overwhelm us.

Two such threats are global climate change and America's oil addiction. Sir Nicholas Stern, the former chief economist of the World Bank who analyzed the costs of climate change in 2006, predicted that left unaddressed, the immense impacts of global warming could cost between 5 percent and 20 percent of global GDP. Preventing that substantial economic hit would cost about 1 percent of world GDP, Stern said. In other words, the costs of acting are much less than the costs of doing nothing.

That was then. Now, Stern estimates that the costs of mitigation have doubled, to [2% of global GDP](#). For one thing, the world hasn't acted yet to reduce greenhouse gas emissions. Each year we fail to act, mitigation gets harder and more costly. For another, climate change is happening faster than expected.

The second threat is related to the first: Our continued dependence on oil. Earlier this year, researchers at the U.S. Department of Energy's Oak Ridge National Laboratory issued these [estimates](#) :

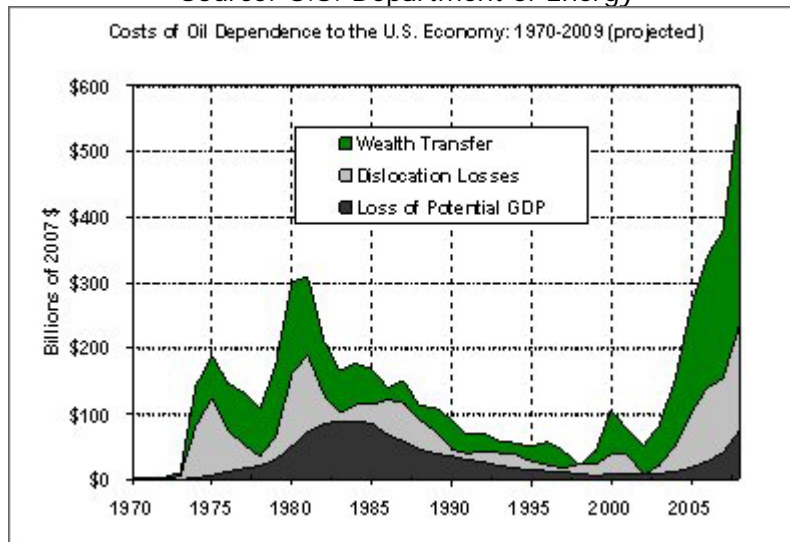
- The direct economic costs of oil dependence in the United States will be \$560 billion this year.

- Higher oil prices are expected to reduce U.S. GDP by more than 1.5 percent, or \$230 billion.
- Most of the economic costs of oil consumption -- \$330 billion -- will be due to the transfer of wealth from the United States to oil exporting nations.

The cost of America's oil addiction since 2004 will be \$1.7 trillion, the Oak Ridge researchers estimate. About \$1 trillion of that amount -- more than the massive bailout the administration has proposed for Wall Street -- will be American wealth leaking from our economy and going to oil producing nations.

Direct Economic Costs of U.S. Oil Dependence, 1970-2008

Source: U.S. Department of Energy



If the first rule of getting out of a hole is to stop digging, then the first rule of fixing a declining economy is to plug its leaks. Our economists must ask: How much more resilient would the U.S. economy be if we weren't losing massive amounts of wealth, if businesses had more profit through energy savings, and if households had more money to meet their needs, including their mortgage payments? And how much healthier will our economy be tomorrow if we act against climate change today?

While we deal with the current financial crisis, we also need to deal with those on the horizon. There is a great deal of work to be done by the next administration, not the least of it the construction of a more stable and secure energy economy.

This brief was prepared by the nonpartisan Presidential Climate Action Project at the University of Colorado Denver. PCAP, which is developing a 100-day climate action plan for the next President of the United States, issues briefs from time to time for the consideration of the presidential candidates as they consider policies to deal with climate change. Details are available at www.climateactionproject.com.