

Response to Professor Vermaelen: U.S. Climate Policy Is Based on Shaky Arguments



By Henning Huenteler , INSEAD MBA 17D Candidate

Giving President Trump credit for a careful cost-benefit analysis misses the details and implications of this decision.

When President Donald Trump announced his decision to withdraw the United States from the Paris Agreement, he used a humongous amount of false arguments and incorrect data. Numerous experts have debunked his speech and the underlying decision, and an unprecedented number of public and private sector leaders have criticised it. Notably, critics hail from the oil and finance industries, like ExxonMobil's CEO Darren Woods. Goldman Sachs' CEO Lloyd Blankfein used his first-ever tweet to deliver this message about a setback to leadership.

The blog post [“Trump’s Climate Policy is based on Cost-Benefit Analysis”](#) tries to plug the logical holes in Trump’s argumentation and to develop a stronger rational argument on behalf of the president. However, it overstates the costs of the Paris Agreement, draws the wrong conclusion about its benefits and ignores the risk of withdrawing from the first truly

global climate policy institution.

First argument - costs

To establish the high costs that the Paris Agreement imposes on the U.S., author Professor Theo Vermaelen quotes a study that calculated a cost of 2.7 million jobs and US\$3 trillion to the U.S. by 2040, and that President Trump referred to in his speech. Although he acknowledges that Paris Agreement supporters have discredited the authors for receiving funding from the oil industry, he does not mention that the main point of critique was not the funding, but the methodology. The authors assumed that the U.S. would be the only country that honours their commitments to reduce carbon emissions, while all other countries would ignore theirs. Of course, this results in a huge transition of carbon-heavy industries into less regulated jurisdictions. However, the reality is that other large emitters like China and India are already on track to exceeding their targets and the U.S. solar energy industry employs more people than the coal, oil and gas industries combined.

Professor Vermaelen then mentions the Obama administration's payment of US\$3 billion to the Green Climate Fund (GCF) since its inception in 2010. To put those costs into perspective: This constitutes less than a third of the tax the U.S. government earned only in 2010 from ExxonMobil alone, and 0.01 percent of its total budget. This can hardly be labelled significant financial burden to the taxpayer.

The article then cites a comment from Professor Ottmar Edenhofer, former co-chair of the Intergovernmental Panel on Climate Change from a 2010 interview, in a way that creates the impression that climate policy is a big scam to change the world's economic structure. The widely used, but questionable quote is:

"One has to free oneself from the illusion that international climate policy is environmental policy...We redistribute de facto the world's wealth by climate policy."

Whereas the original statement was (translation by author):

"First of all, we industrialised countries have expropriated the world [by emitting carbon dioxide and contributing to climate change]. But yes, we have to say: We are de facto redistributing global wealth. It is obvious that

the owners of coal and oil won't like that. One has to free oneself from the illusion that international climate policy is environmental policy. This has not much to do with [classic] environmental policy, with problems like forest dieback or the ozone depletion."

It remains up to the reader to decide whether this recycled, reduced and reshuffled quote makes the statement more dramatic and outrageous.

Second argument - benefits

From a business-as-usual scenario of a temperature increase of 4.2 degrees Celsius, Professor Vermaelen discounts the projected 0.9 degrees that the current national commitments have agreed would reduce the warming trend. As the resulting 3.3 degrees Celsius are over the tipping point of 2 degrees that climate scientists consider manageable, he concludes that it is hopeless and that we should abandon the effort.

However, this argument reveals two logical flaws. First, climate change is no binary concept. Unlike the bridge analogy Professor Vermaelen uses, we won't be sitting on a half-finished bridge in the middle of a river if we don't limit climate change to 2 degrees Celsius. Each degree of warming beyond the 2 degree target increases likelihood and **severity** of the expected effects. The conclusion that it is better to cease all efforts because they are not ambitious enough is deeply flawed.

Second, neither do Professor Vermaelen or President Trump provide alternatives, nor is there any credible alternative in sight. If we can agree to accept what **every major scientific society** tells us, that climate change will have devastating effects very soon, we need the tools to address it. Withdrawing from the only global institution we have, however ineffective or insufficient it might be, without a ready-developed alternative is dangerous.

Third argument - hypocrisy

Professor Vermaelen makes the case that remaining part of a non-binding agreement that does not provide punitive measures for non-compliance is hypocritical. But if the guiding principle of the Trump administration is to withdraw from institutions in which countries make promises without the intention of keeping them, he would need to pull out from most UN organisations, the G7, NATO, the International Atomic Energy Agency, the World Trade Organisation and many more. The U.S. would effectively isolate

itself from global policy making.

This leads to what Professor Vermaelen misses in his analysis: The costs of withdrawing from Paris. As discussed in INSEAD Knowledge recently, the exit leaves another **vacuum** in global leadership. Without any measurable benefits, Trump's decision has further deteriorated the **already strained** relationship with traditional allies of the U.S.; it will continue to drive Europe into **closer cooperation** with China and other emerging powers, and this decision will hand the **technological leadership** of key technologies to other nations.

As the impact of climate change is becoming increasingly obvious, doubling down on our efforts is imperative. Yet, by withdrawing from the Paris Agreement, President Trump will cripple the first truly global institution that was created since the founding of the WTO in 1995. In doing so, he pushed the world one step closer towards isolationism and made the coordinated efforts to tackle one of the most pressing problems of our generation much more difficult. But not only that: At a time when the U.S. military and economic leadership are challenged, President Trump, without pressure, gave away the potential leadership in a field that will dominate the politics of generations to come. No – the withdrawal from the Paris Agreement was not based on a careful Cost-Benefit Analysis, at least not one with the people's interests in mind. Giving him credit for that misses the details and implications of the decision.

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