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Short-termism and the threat from climate change

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By not acting now, we're allowing the future costs of the greenhouse-gas crisis to compound. Eventually, the consequences will be irreversible.

It's fitting to gather views on the long term for a business audience, given the pervasive short-term pressures CEOs are under to demonstrate performance. We all know that outstanding companies and real value can only be built over the long term. The challenge for a CEO is to balance the drive for long-term goals with the need to keep the organization strong in the here and now.

That job is made even harder because the business community is not the only sphere in which short-termism thrives. Nowhere is it more rampant than in our political system. One of the things I learned in Washington is that it's very hard to get Congress to do anything controversial or difficult unless there's an immediate crisis.

Learning from the financial crisis

Climate change is where short-term thinking and long-term consequences collide for businesses and governments alike. Meeting the challenge of climate change calls on both to assess the risks and act before the economic and environmental consequences of failure are irreversible. As someone who has spent a good deal of time assessing risk and dealing with crises, I'm struck by the similarities between the climate crisis and the financial crisis of 2008.

Today, we're making the same mistakes when it comes to climate change that we made in the lead-up to the financial crisis. We're building up excesses (debt in 2008; heat-trapping greenhouse-gas emissions now). Our government policies are flawed (providing incentives for borrowing too much to finance homes then; providing incentives for the use of fossil fuels now).

The greenhouse-gas crisis, however, won't suddenly manifest itself with a burst, like that of a financial bubble. Climate change is more subtle and cruel. It's cumulative. And our current actions don't just exacerbate the situation—they compound it. Indeed, our failure to make decisions today to avert climate disaster tomorrow is even more serious than our failure to avert the credit crisis in 2008. The carbon dioxide and other greenhouse gases that we emit into the atmosphere today will remain there for centuries, and government will not be able to avert catastrophe at the last minute.

We're already feeling the impact. For example, the higher sea levels off the coast of New York City—sea levels that led to a storm surge that devastated parts of the city during Hurricane Sandy—are the result of public- and private-sector decisions made decades ago.

So what does this mean for businesses and investors trying to plan for the future? It means that even as we're spending money to adapt to the current state of our climate, we're also making decisions today that risk locking us into long-term consequences that we'll certainly have to adapt to, at far greater cost, far into the future.

In an effort to better understand these risks and to measure their cost to specific sectors of the US economy, I recently joined with former New York City mayor Michael Bloomberg and the investor and philanthropist Tom Steyer to cochair the Risky Business Project. Our goal was to take a standard risk-management approach to climate change. We asked independent researchers to model the specific consequences of continuing along our current emissions pathway for three major industries—agriculture, energy, and real estate.[1]

The results were sobering. The US economy faces multiple and varied risks from unmitigated climate change. These are disproportionately significant in certain regions, and they are not all decades in the future: for example, projected changes in sea level, combined with changes in hurricane activity, will likely increase the cost of coastal storms along the East Coast and Gulf of Mexico by 11 to 27 percent in 15 years, representing an additional $3 billion to $7 billion in average annual damage. This has serious implications for developers, insurers, bond raters and issuers, and local governments in these areas—not to mention current property owners and businesses located along the coastlines.

In the Midwest region, some states, including my home state of Illinois, will likely experience significant losses in crop yields for our major commodity crops of corn, soy, wheat, and cotton. Absent major adaptation efforts on the part of farmers and agribusiness, some states in the Southeast, lower Great Plains, and Midwest risk up to a 50 to 70 percent loss in average annual yields for the same crops by the end of this century.

[1] To assess the risks of rising temperatures, the Risky Business Project relied on analysis of both high- and low-probability outcomes and the economic consequences on a regional basis, as well as for specific sectors of the economy. Those costs included the loss of property along coastlines due to rising sea levels and increases in hurricane activity, changes in commodity-crop yields attributable to temperature and precipitation changes, and increased electricity demand corresponding to hotter days across much of the continental United States. The research found additional costs associated with heat-related mortality and losses in labor productivity.

And for states across the South, hotter conditions will make outdoor work nearly impossible for large portions of the summer. Texas, for instance, experienced an average of 43 days a year with temperatures above 95 degrees Fahrenheit over the past 30 years. This number will likely reach up to 80 days over the next 5 to 25 years, nearly doubling, and rise to more than 100 days a year by mid-century.

We took a conservative approach in the Risky Business Project report, looking only at the most clearly foreseeable effects of climate change. But the data we didn't consider are even more disturbing. Most scientists believe that the single biggest tipping point on climate change will come with the melting ice sheets in the Arctic and Antarctic.

Fewer than ten years ago, scientists projected that melting Arctic sea ice would result in virtually ice-free Arctic summers by the end of this century. Now, the ice is melting so rapidly that such a result could be a reality in the next decade or two.

More troubling, two new studies reveal that one of the biggest thresholds has already been crossed. The West Antarctic ice sheet has begun to melt, a process that scientists say may take centuries but that could eventually raise sea levels by as much as 14 feet. Now that the melting has begun, we can't undo the underlying dynamics, which scientists say are "baked in."

Managing climate risk in the private sector

Understanding these potential impacts is one thing. Seriously planning for them is another. As my friend and Risky Business Project cochair Mike Bloomberg likes to say, "If you can't measure it, you can't manage it." Well, now we've measured. It's time to manage.

What does managing climate risk mean for the private sector? In the short term, it includes a significant amount of adaptation. Businesses need to take steps to shore up their supply chains and physical infrastructure to guard against disruption from the extreme heat and weather events that are the hallmark of a changing climate. We're already seeing these adaptive efforts from companies such as Colgate-Palmolive, which reduced its exposure to climate risk by closing, relocating, or strengthening sites that were increasingly exposed to severe weather conditions as part of a larger restructuring program.

Companies are also beginning to make future infrastructure-investment and siting decisions based on the latest climate science. Shell, for instance, employs advisers to conduct assessments of future climate-change conditions for large new projects in regions such as the Arctic (projecting sea-ice conditions for 2030 to 2050), the North Sea (wave conditions for 2010 to 2020), and tropical areas (cyclone severity for 2010 to 2030).

While these businesses may be doing better than many governments in dealing with crisis, there is still much that needs to be done. The business community can't stop at adaptation. We need to reduce the risk of future climate events.

Individual companies can do some of this. For example, utilities can build renewable-energy facilities to meet the power demands that will come with increasing temperatures rather than defaulting to carbon-based energy sources.

Disclosing climate risk and actions in financial reporting would also sharpen the focus for management and investors. An even greater service would be for businesses to take a more active role in working with government to put in place the kind of long-term, consistent policy framework we need to ensure a more sustainable economic future.

Thinking long term in the public sector

Climate change is not just an issue that poses significant economic risk for the businesses; it also poses a huge fiscal risk to the United States. Government has a responsibility to take the long view on this issue—and there is every incentive to do so.

When natural disasters strike, government intervenes, spending billions of taxpayer dollars on disaster relief and recovery and on shoring up infrastructure to guard against future events. Indeed, this is the proper role of government. However, policy makers can no longer afford to ignore the underlying reasons for the increase in the number and severity of natural disasters. To do so jeopardizes our fiscal future, particularly given the severity of climate risk. If we don't change course, wide-scale government interventions will increasingly add to the national deficit, which will hamper growth and competitiveness while siphoning off public dollars that could be spent in other critical areas.

Instead, the federal government should be addressing the fiscal realities of inaction, first by investing in basic research on new technologies, which only the public sector can do at a scale commensurate with the magnitude of the problem. Also, government must put policies in place that let the market direct resources toward smart investments. A price on carbon, for instance, would help unleash a wave of innovation for new technologies, promote efficiencies, and change corporate and consumer behaviors.

Unfortunately, politics sometimes stand in the way of smart decision making. That's why it's incumbent on business leaders, who create jobs and economic opportunities in every district of this country, to stand up and push our policy makers to take action to avert the looming climate bubble.

The global challenge of climate change

Of course, climate change is not just America's problem. This is an issue of vast proportions, which knows no geographic borders, and stemming it requires a global full-court press. I believe this must begin with bilateral action between China and the United States—the world's largest economies, energy users, and carbon emitters—to demonstrate leadership that will, in turn, prompt global action. The climate deal struck by President Obama and President Xi is an important and commendable step in this effort. Frankly, continuing to work closely with China may be our only real hope for solving the climate crisis.

This is one of the areas where our countries' private sectors, governments, and nonprofit institutions have a strong shared interest to work in complementary ways to push for action and to develop and deploy new technologies on a cost-effective basis in the developing world. The challenge will be the speed with which we can come together in meaningful ways around a problem of this scale. But the good news is that no nation on earth innovates better than the United States, and China can roll out and test new clean energy technologies on a speed and scale like no other.

Here in the United States it's frightening, but not surprising, that our business leaders and lawmakers far too often either dismiss the topic on political grounds or relegate climate change to the back burner to address issues that seem more immediate.

For its part, China's air quality has reached a crisis point, and the government has no choice but to act. Spend a day in Beijing, which suffered more than 60 days last year from air pollution that reached hazardous levels and where annual average particulate levels are four times the World Health Organization maximum. On especially bad days—those that rate as "beyond index," or off the scale—pollution can reach 20 times the WHO maximum. No wonder China's leaders feel pressure to act.

Recognizing the urgency of the problem, Premier Li Keqiang has declared a war on pollution and launched a new plan for economic reform to set China on a more sustainable environmental path. As a result, we're seeing a noticeable policy shift among the country's leaders.

For instance, the government has introduced new performance indicators for officials based not only on economic performance and social stability but also on environmental management and the quality of growth. China is also taking steps toward pricing greenhouse-gas emissions. Seven regional pilot carbon markets have been up and running in major cities since 2013, with the goal of developing a model for the country—and a nationwide system could be announced within a year.

These are commendable actions, but China has been losing ground from the impact of breakneck growth that has overwhelmed the economy at a significant environmental cost. China is the fastest-growing greenhouse-gas emitter, accounting for some 30 percent of all global emissions. So it's no wonder the country's leaders have placed high priority on cleaning up its polluted air. Chinese citizens demand it—as will the rest of the world.

The long term is now

It's time for the United States to get its house in order through policies to curb and price carbon emissions. We must lead, first, because the stakes are high for our environment and for our economy. Moreover, when our own house is in order, we are in a better position to press China and other developing countries to take difficult but necessary steps to curb this crisis.

Given the stakes for our environment and for our economy, it's also time for the business community to urge government to enact smart and sustainable policy solutions. After all, politicians listen to the business leaders in their states and districts—in addition to the general public that elects them.

We can't afford to ignore this crisis. It's as if we're watching as we fly slow motion toward a giant mountain. We can see the crash coming, but we're sitting on our hands instead of altering course.

It's time to turn the wheel.

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