

On board Titanic – how to avoid another catastrophe!

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Abstract:

The current growth and climate crisis is eerily reminiscent of the fate that befell the state-of-the-art Atlantic liner Titanic. It convened in early April 1912 on its maiden voyage for New York. It was built according to all scientific principles and therefore declared sink-free by experts and technicians. We know what happened.

Looking at William Nordhaus's DICE-model a number of similarities to the fate of Titanic comes to my mind.

On the drawing board the DICE-model follow the conventional neoclassical general equilibrium pattern. Whatever might happen to the (world)economy, the model has built in stabilizers, which secure a smooth course toward the general equilibrium (safe harbor of New York). On the neoclassical drawing board negative external effects are identified and corrected according to cost-benefit analysis, where the discount rate is set to 4 percent p.a. Such a high discount rate makes any cost of the present CO₂-emission disappear before the turn of the century. Hence, a rise in global temperature of more than 4 °C becomes according to Nordhause 'optimal' and 'rational'.

In my presentation I will challenge a number of assumptions, which is build into the drawing board model DICE: 1. General (global) equilibrium per se, 2. General equilibrium models 3. Missing financial sector, 4. High discount rate and 5. Looking at the world as a unity, without taking the great/disastrous variety with north & south and Rich & poor (what is 'optimal' for the rich North has disastrous consequences for the poor South (not to speak of some of the minor Solomon Islands), and finally (if time allows me) challenging the requirement of so-called 'Sustainable' Fiscal Policy (meaning public sector balanced budget or Stable Public Debt/GDP ratio) derived from the GE-models.

Literature:

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