



## The Cost of Doing Nothing

Posted by [Phil Hart](#) on December 17, 2007 - 5:24pm in [The Oil Drum: Australia/New Zealand](#)

Topic: [Economics/Finance](#)

*This is a guest post by Keiron Liddle (coaster). Kieron lives in Brisbane, has been PO aware for about 5 years and thinks the effects are becoming apparent now.*

When we consider why people don't act on issues such as global warming and peak oil, it seems to me that the main reason is cost. Why put extra cost on yourself or the economy when there is either doubt or other reasons which you believe will end up disadvantaging you.

With global warming there is the added problem of 'the commons'. If either you alone, or the entire country you live in, reduce emissions to zero at a significant cost then others will still continue to damage the global environment and you would end up paying twice. One of the recent catalysts in the global warming arena was the Stern report, which concluded that the cost of doing nothing would be greater than the cost of reducing emissions (to a certain level within a timeframe).

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So I ask the question; What will be the cost of peak oil/peak energy from fossil fuel use to the economies around the world? What will be the difference if we act earlier than we are forced to?

The first advantage is that every country/community can act mostly alone without paying an extra penalty. In fact, it may be to your advantage to act sooner than others in securing energy needs. Providing for future energy needs, particularly with renewable energy, will generate local jobs and local economic benefits. While the manufacturing of renewables is mainly globalised (eg. wind power and PV), it doesn't have to be. Fossil fuels as a natural resource provide no such option.

The communities that prepare earlier are more likely to be in a better position as others are forced to change. The ones being forced are likely to be faced with higher prices and shortages causing interruption to productivity and possible economic shocks. So the aim of acting earlier is to avoid the risk of a crash in the standard of living, the economy or even the population as a result of the downward slope of the fossil fuel energy supply. The downside is that you might pay a slight penalty in the short term. It is a matter of acting at the right time and in the right way so that you can take as much advantage of the (still) cheap available energy in order to sustain the economy and build up alternative energy supplies.

When it comes to the environment, the time to act is now. But when is the time to act if you are considering peak oil? A sustainable society requires a number of changes. There is more than one step required and it can't all happen at once. The steps required include improving energy efficiency in construction and transport, building renewable sources of energy, stabilising population and implementing sustainable farming practices.

The renewable picture consists of:

- electric power generation from solar, wind, wave etc.
- biofuels

replacing:

- power generation from coal, nuclear, natural gas
- oil, natural gas

The first question is; when will peak energy be and what will its economic utility be? From an [analysis done previously](#) peak energy is likely to be around 2025-2030. However this is using significant amounts of coal which would be mainly for generating electricity (I don't expect significant coal to liquids except perhaps for the short term).

What will the picture look like post peak? How much of our transport will be fuelled from biofuels? Biofuels compete with food and the environment and most of the associated costs, transport, fertilizers etc. will continue to increase. Considering that the world population is dependant on current food supplies, I would think that no more than 10% could be used for biofuels.

An electrical grid will always be of great use and can easily take increasing inputs from alternative sources. Public transport and living closer to transit areas or economic centres will make a big difference.

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## How soon should you move?

Quite a number of efficiency improvements are beneficial at any time. Renewable energy sources will take some time to ramp up sufficiently, especially as it is more distributed and requires a number of different solutions. Public transport requires sufficient patronage to operate effectively and decision makers are only slowly adapting to a changing external environment, with many direct and indirect subsidies and funding for private rather than public transport. So I would say that in many cities around the world, this transition is already well behind the optimum schedule, even before considering current oil price increases. Changing living location is a lot harder - it takes longer and is difficult to persuade people to abandon their current location and move to high density areas that haven't been built yet. This might only occur when prices forces people to give up on their current situation.

How should you move? What will be the cheapest and most useful sources of energy? How much is available? What percentage of our agriculture can we put into biofuels? How quickly can transport be electrified - trains, light rail and other solutions? What can we do about air and sea transport? What will the effect be on international trade?

Who needs to act to bring about these changes? Countries can use instruments like incentives for efficiency, subsidies for new technology and other adaptive measures, carbon trading, taxes etc. States can focus on transport and energy delivery. Local government can help with town planning and local transport.

## What is the cost?

Given that efficiency and better public transport will probably be a gain under all scenarios, and that it would only require redirecting what will probably turn out to be misplaced funds, there may be no downside cost in this area. The real cost will be in moving to electrical generation and creating the infrastructure for electrical transport. But surely waiting until it has to be done quickly will end up costing more than making a managed transition over a longer period?

I would say that the time to move is now. There are many advantages and only limited downside

costs. I would say that the cost of alternatives is unlikely to be directly competitive with fossil fuels for some time in the current environment. I think that to drive real changes in energy use and sources used, we should gradually double the current cost of energy and then pour all that money into improving efficiency and subsidising alternatives until they are of comparative or cheaper cost. Then everyone will easily be able to make a difference, and reduce the impact of future fossil fuel prices. As part of this response, governments need to significantly reduce the building of roads and concentrate on public transport and rail infrastructure.

The difference will be between changing ahead of time or needing to change rapidly when everyone else is being forced to change at the same time. Dealing with that cost, or facing a collapse in the standard of living and ability to produce, trade and get food seems likely to outweigh the costs of acting earlier. An economic study could be conducted to quantify these two approaches.

## Conclusion

I suggest that acting now would be a better option than waiting to be forced to act by high prices and shortages. The advantages of acting now would probably outweigh the disadvantages of continuing to rely on fossil fuel based energy now. I suggest we make a head start on others in making the transition with planning, experience and development so that we maximise the benefits of the cheap energy we have now and build the infrastructure for a post peak energy future. This would be the way of redirecting the cheap energy to make efficiency and infrastructure that will be a long term advantage.

Making the market do the work with price signals will get everyone involved in making the changes sooner rather than being forced to change via sudden and drastic international price changes accompanied by shortages and other crises. The probability of damaging climate change only makes this all the more urgent.



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