

Applying Present Value Calculation to
Long-range Political Promises
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Faced with severe credibility problems on pledges to “take action” on climate change, many national governments—including Canada’s—have adopted a new strategy.

The new approach is elegant in terms of simplicity: Push your actual policy deliverables so far into the future that you are virtually assured of being either dead or deranged by the time the policy becomes due and payable.

In one sense, this is an elementary application of the well-established NIMTOF principle, “not in my term of office.” But as the time gap between present promises and future deliverables widens, this maneuver threatens to migrate from NIMTOF-plus to NIMTOF-*ad absurdum*. So it is with the current round of promises to reduce GHGs.

In April 2007, Canada’s Environment Minister John Baird promised to reduce Canada’s GHG emissions to 20% below the 2006 level by 2020, and to 60-70% below the 2006 level by 2050.

My modest proposal is that we should apply the standard economic calculation of the present value of future goods to political promises of this sort. If we did so, what would the result be?

The supposed 2020 target still would leave Canada a bit above its 1990 emissions level, but at least close to its Kyoto commitment. This is awkward, because the Kyoto-level commitments are only a down payment toward the only meaningful objective in climate action, namely, stopping the rise in global GHG emissions and then bringing emissions down to some fraction of its former level.

So let’s ignore the 2020 target, as being irrelevant to climate action, and focus on the 2050 one. What is the present value (in 2008) of this political promise?

If we assume that promise for 2050 has a nominal value of \$100 in that year, and that the discount rate is 4%, its value in 2008 dollars is: \$2.29.

Actually, that seems high. So I offer to all takers a bet of 10¢ (Cdn.), monies to be held in trust until 2050 and payable to named beneficiaries, that Canada will not reach the lower range of its 2050 target.

Comments on the usefulness of the attempt to apply present value calculations to long-range political promises are most welcome.