

If we discount the future we won't tackle climate chang...

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I am unashamedly quoting from the comments made by Nicholas (Lord) Stern noted in the Guardian this morning. [As they record](#):

Many economic assessments of the climate crisis “grossly undervalue the lives of young people and future generations”, Prof Nicholas Stern warned on Tuesday, before the Cop26 climate summit in Glasgow.

Vitally, what he then notes is that:

Economists have failed to take account of the “immense risks and potential loss of life” that could occur as a result of the climate crisis, he said, as well as badly underestimating the speed at which the costs of clean technologies, such as solar and wind energy, have fallen.

This, though, is the key comment that I want to draw attention to:

Stern said the economics profession had also misunderstood the basics of “discounting”, the way in which economic models value future assets and lives compared with their value today. “It means economists have grossly undervalued the lives of young people and future generations who are most at threat from the devastating impacts of climate change,” he said. “Discounting has been applied in such a way that it is effectively discrimination by date of birth.”

I am delighted to see Lord Stern say this. As I argued in February this year:

There is an obvious relationship between past experience, which inevitably taints us, whether for good or not. If the recent past is what determines much of our trajectory, at least as far as thinking goes, then the future does not seem very inviting right now. The prospect of a world more extreme, intolerant, and even uninhabitable, is not one that people want to embrace. It is all too easy to recoil from it. But that only plays into the hands of the extremist who wants to occupy the space we might want to vacate.

There are other reasons why we do not consider the future. For example, for the last

few decades economists have pretended it does not exist. They use a method called discounting to evaluate all future consequences of current behaviour with aim of ascribing to that future a value in the present. They do this by literally 'discounting' the financial consequences of those decisions to the present using a risk weighted interest rate. It is claimed that this produces objective current decision making. Supposedly rational organisations use this approach, accepting its implicit assumptions.

One of those is that we can actually predict what is going to happen. That's just wrong, of course. But that has never stopped an economist making an assumption.

The other is that we are actually indifferent as to when things might happen. This is much more troubling. What the theory of discounting implies is that I am indifferent between a relatively modestly good thing happening in a year's time compared to a monumental event in ten or more years time, presuming the assumed discount rate can literally equate the two to a similar value now. And that is just not true either.

As a matter of fact there are good things that I definitely want to happen in the future that are decidedly time critical, for my family for example. And some of them I would definitely not wish for now.

The indifference within discounting is wrong for these reasons. But what I said next was, I think more important:

But there are also events that I know that are not possible now that might be in the future and which I know I wish to be achieved by certain points in time. Take carbon neutrality, for example. I know it is not possible now. I put enormous stores on the fact that it may be possible in the future. I am not going to take comfort now from some mathematical model that tells me that I can be happy at this moment that carbon neutrality might be possible in the future, and may increase my wellbeing if it is. I want to know that there is a concrete plan of action to achieve that goal, and the two are not the same thing, at all.

It's worse than that, in fact. The mathematical model can provide a perverse incentive to delay, by diminishing future cost and so enhancing current supposed well-being by simply pushing back the time when a required action takes place, when in practice we know that taking action now really is a matter of the highest priority if the goal is to be achieved.

The Covid crisis has demonstrated the negative consequences of deferring action in the moment. Our government has been a master of doing so.

And this is also true of climate change. There discounting cannot work. It encourages deferred action when what is required is current activity if this crisis is to be beaten.

This thinking is informing my work:

The means to address this false logic of discounted decision making are the focus within the [Time Mirror academic project](#), funded by the Danish government, in which I am taking part over the next four years. Explicitly exploring the idea of [sustainable cost accounting](#), which I have created, as a means for addressing this issue the project will look at why discounting would hinder effective accounting decision making on climate change, not least within the private sector economy where a massive behavioural transformation is very clearly required.

It also influences my work on accounting:

Sustainable cost accounting demands that companies put the costs of achieving net carbon zero on their balance sheets upfront. It challenges the logic of not disclosing the potential costs upfront and in full, and accounting for them on a deferred, drip feed, basis instead. It says that in this case the future must be addressed now by provisioning on company balance sheets the full expense thought likely to be incurred and that the plan for action must be explicit in the present, even if it can only occur in the future, at which point outcomes against stated expectations must be compared and consequences be accounted for.

This is radical accounting. I am pleased that the opportunity to explore it in more depth is being provided. But the lesson is not just for accounting, or climate change. The logic says that you cannot discount the future in the present. It says instead that we must embrace the future, and the actions that we might wish for as activities that are as relevant to the moment as they might be at the time that they occur.

My conclusion was:

Embracing the future has massive current consequences. It is what we need to do, but we are so poor at thinking about the future as a result of the training in indifference that we have been given that we, and most especially our politicians, rarely take into account foreseeable events that might happen in only a few months time, and literally discount them instead. And that is both shocking, and as we now know, deeply costly.

It would seem that Lord Stern agrees. We are making progress.