Did global warming send Lehman Brothers broke?

The failed firm should have spent less time on climate change alarmism, and more on prudent risk management, writes John Roskam.

There's much debate about the causes of the global economic crisis. According to the popular media some of the chief suspects include 'greed', 'obscene executive salaries', and 'predatory lenders'.

But maybe the origins of the crisis lie somewhere else entirely. Maybe a long lunch with Nicholas Stern is to blame.

The bankruptcy of America's fourth-largest investment bank, Lehman Brothers in the middle of September is generally credited with precipitating the near total collapse of confidence that subsequently engulfed the international monetary system.

In Australia Lehman Brothers is notorious for marketing investment schemes to local councils which have resulted in those councils losing millions of ratepayers' dollars. (Whether local councils should be 'investing' the rates they collect in such schemes is another matter.)

In America Lehman Brothers was well-known for a few other things. Former Chief Executive Richard Fuld was a major donor to the Democratic Party. And his firm was a major spruiker of global warming alarmism. For Lehman Brothers, global warming was a means of making money. The firm promoted trading in ‘carbon credits’ via an emissions trading scheme. The Lehman Brothers’ global warming proselytising took a number of forms. In 2007 the firm established a ‘Global Council on Climate Change’ and Fuld said that ‘prudent risk management dictates that this is an area where we cannot afford to be wrong.’ It’s good that Lehman Brothers was prudent when it came to climate change, because it seems that the company wasn’t prudent about much else.

In February last year Lehman Brothers also released a one hundred page report entitled ‘The Business of Climate Change: Challenges and Opportunities’. The report purported to be an analysis of the state of global warming science and the business consequences of warmer temperatures. It readily embraced and endorsed the most pessimistic climate scenarios.

The report confidently predicted what the world would be like in one hundred years time. It is a little difficult to take seriously Lehman Brothers’ predictions of what will happen in 2100, given that it seems no-one at the firm had any idea of what would befall them in less than two years. It’s now obvious that Lehman Brothers should have spent less time speculating about the state of the world in 2100 and more time contemplating the present. On 10 September Fuld announced Lehman Brothers was taking ‘strategic initiatives’ to return the firm to profitability. Five days later Lehman Brothers filed for bankruptcy. If the staff of Lehman Brothers didn’t know what was going to happen in a mere five days, how could they possibly have a clue about what will occur in a century?

The Lehman Brother’s report was not backward in coming forward in telling everyone else how to run their business.

The pace of a firm’s adaptation to climate change and related policy is thus likely to prove to be another of the forces that will influence whether, over the next several years, any given firm survives and prospers; or withers and, quite possibly, dies.

Lehman Brothers has most definitely not survived and prospered. It has withered and died. Perhaps it didn’t follow its own advice and adapt to climate change quickly enough.

In one respect the report was quite humble. It admitted that it was ‘far from the last word’:

Indeed, we see it as just the starting point for a dialogue with our investing and corporate clients. As the discussions with our clients and policy experts progress, we will take this work further.

Lehman Brothers won’t be taking any climate change work any further. It’s bankrupt. A cynical person might well regard Lehman Brothers’ climate change research in the same light as Lehman Brothers’ sub-prime lending practices.

And the connection to Nicholas Stern and the long lunch? He’s acknowledged in the report as ‘through the course of a long lunch’ having provided a ‘brilliant overview of the principal climate change issues as he had come to see them.’

Perhaps we’d all have been better off had the staff of Lehman Brothers not returned to the office after that long lunch.

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