Climate Change Poses Substantial Risk To Financial Markets, Top Regulator Warns

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The Commodity Futures Trading Commission is an organization most of us have never heard of. Think of it as the SEC for those who bet today what the price of pork bellies, oil, and soybeans will be tomorrow. On its **website**, the CFTC says its mission is to "promote market integrity" by policing "the derivatives markets for various abuses. It also seeks to lower the risk of the futures and swaps markets to the economy and the public."

One of its five members is Rostin Behnam, a Democrat appointed by the sitting president because the law that created the CTFC requires a certain number of commissioners from both parties. According to the ***New York Times*,** Behnam had some things to say recently that will make the president frown. He claims the financial risks from climate change are comparable to those posed by the mortgage meltdown that triggered the 2008 financial crisis.

"If climate change causes more volatile frequent and extreme weather events, you're going to have a scenario where these large providers of financial products — mortgages, home insurance, pensions — cannot shift risk away from their portfolios," he said. "It's abundantly clear that climate change poses financial risk to the stability of the financial system."

The enabling legislation that created the CTFC in 1974 gave it more autonomy from the executive branch than is common in the federal government. That will make it difficult (although not impossible) for the current president to retaliate against Behnam. "I have a unique bully pulpit," Behnam says. Most federal commissioners keep a low profile and rarely speak out publicly. James A. Thurber, director of the Center for Congressional and Presidential Studies at American University tells the *Times*, "Rarely do you see a commissioner go rogue and public."

Behnam says he is assembling a panel of experts to report on how global warming could affect the financial sector, potentially impacting food costs, insurance markets, the mortgage industry and other economic pillars. Because much of the commission's work involves agricultural products, that report could be a detriment to the re-election campaign of a certain person who shall remain nameless. The farm vote put him in office and it could just as easily send him packing.

Expect the president to level a Twitter storm at Behnam any moment, even though assessment of risk is what financial regulators are supposed to do. It is quite literally their job.

Risk & Climate Denial

Risk assessment is a large part of all financial markets. Recently, Jerry Taylor, a long time climate denier stalwart at the Cato Institute, had an epiphany. He told David Roberts of ***Vox*** recently that a lot of people on the right tend to view the threat of climate change the same way people saw the threat of population explosion in the 70s — an hysterical position that would burn itself out in time. No need to spend trillions of dollars to defend against something that was never going to be a real issue anyway.

He has since changed his mind and risk has played a big part in his conversion. He told Roberts it happened like this:

Then Bob Litterman comes along. He is pretty well-known in the environmental community; he's on the World Wildlife Fund board of directors; he's on the Resources for the Future board of directors. He's also — prior to and separate from these activities — a partner at Goldman Sachs. He started their quant operation and is one of the top risk analysts in the world.

So he came in to talk to me and my then-colleague, Peter Van Dorn, and laid out what I thought a very powerful argument. In brief it went like this: the issues associated with climate change are not that different from the risk issues we deal with in the financial markets every day. We know there's a risk — we don't know how big the risk is, we're not entirely sure about all of the parameters, but we know it's there. And we know it's a low-probability, high-impact risk. So what do we do about that in our financial markets? Well, if it's a nondiversifiable risk, we know that people pay plenty of money to avoid it.

His point was that if this sort of risk were to arise in any other context in the private markets, people would pay real money to hedge against it. He did it every day for his clients. Even if Pat Michaels and Dick Lindzen and the rest [of the climate-skeptic scientists] are absolutely correct about the modest impacts of climate change as the most likely outcome, it's not the most likely outcome that counts here. Nobody would manage risk based on the most likely outcome in a world of great uncertainty. If that were the case, we'd have all our money in equities. No one would spend money on anything else. But we don't act that way.

Risk exists. Prudent people take prudent steps to manage it. Prudent people do not ignore it. That is the message Jerry Taylor has for climate deniers. Which makes Rostin Behnam seem like a rational, prudent person, something the man who appointed him most definitely is not.