

## **INDONESIA PROVIDES HOSPITALITY AND WIT IN BALI**

An open letter to Indonesia

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What will it take to save the planet? Whatever the cost, we know the planet's worth a lot more than any commercial valuation or cost-benefit analysis will ever reveal. So we need the political courage and fiscal creativity necessary both to affirm that and to do what has to be done.

The most constructive proposal made so far in Bali at the 13th UNFCCC Conference has come from conference host, Indonesia: the self-explanatory notion of payment for "avoided deforestation" a term used by Environment Minister Rachmat Witoelar to acknowledge the value of standing tropical forests and widely reported in the press last week.

Apart from Minister Witeoler, courage and creativity are sadly lacking in Bali. The best idea the world's rich nations have come up with is squeezing the poor harder and again. How cowardly, how unimaginative, how indecent and how dead end!

But let's also see just how bad this idea is. It's true enough that there are lots of poor people: at least 5 and going on 8 billion. Their average income, however is just \$4 per day. Almost one billion of them, according to World Bank estimates earn less than \$1 per day. Once bare livelihoods have been taken out of these princely incomes, there's not much fat left. To be sure the rich world has far less people – around 1.2 billion – but average daily incomes are so much higher – around \$80 per person each day.

How hard can it be to do the basic maths here? A thinly stretched daily \$20 billion on one side and \$96 billion, a lot of it available for luxury spending, on the other. Isn't the smart, as well as the decent, move obvious? Go to the rich. They've not only got 80%+ of the money but far, far more fat, far more discretionary reserves, as they say.

Scrounging around in the world's slums to finance a world energy infrastructure refit in the name of user-pays will be a disaster. It just won't work. But even while failing, it will mean more expensive food, less water, less sanitation, less clinics and less schools –the only conceivable way forward for billions earning a few dollars each day. The idea can only appeal to the

unimaginative and the rich. They always like the poor to pay. But this time, when the planet's at risk, the user-pays principle is a very bad idea.

Again, it's obscene. It's also very hard and very slow – and that's why it will fail. Remember, every new climate change report, like the latest IPCC 2007 *Synthesis Report* or the more recent UNDP *Fighting Climate Change*, gives us less time. This is not an argument over agricultural subsidies or patents. This is dicing with death. Planetary death. While we seek to pass on costs to others, especially the weak, we are all being lined up to be losers.

Added to that, developing world leaders today are tough and tired of bullshit if I can use Australian vernacular. In the end, the poor have so much less to lose and they know it – in their minds, in hearts saddened by loss and even in their malnourished bodies. In this stand off, their weakness is a strength they need not even deploy. They poor won't win but if it plays out this way, everyone, again, will lose. Couldn't we avoid that on our \$96 billion daily income? What, after all, would it cost?

Nicholas Stern provides a mid-range up-front global green house gas abatement cost estimate: 1% of world GDP (currently \$65 trillion) per year for a while. Why a while? Because the investment would eventually bring incalculable returns including, of course, a planet able to sustain human life indefinitely into the future. Many people are understandably loathe to put a dollar value on this – and so it is often completely overlooked. For us, it's a reason for going to any lengths. From this high ground, however it is hard to see what we may need for up-front investment money.

If Stern is right, we are currently looking for \$650 billion pa, a figure that will obviously rise in line with GDP growth. And can we find that money, again, without imposing on the poor? Here's a few basic ideas to go on with.

1. The 1.2 billion people living in the world's developed nations could each forego 1.8% of their incomes. That's about \$12 or \$13 of their weekly \$560 and would finance their own and developing world abatement – roughly half each. That buys three cups of coffee at my favourite café. In any event, \$13 per well-off person per week adds up to \$650 billion.
2. High net worth individuals (or HNIs – fortunate individuals worth \$1+ million in capital assets) could pay death duties. Almost 10 million of these lucky folk have been counted globally and their capital assets add up to about \$32 trillion according to the recent Merrill Lynch *World Wealth Report*. A 50% estate tax on this small treasure, assuming each individual fortune is taxed every 25 years, would raise around \$650 billion pa.
3. A 2% wealth tax on millionaires levied each year would yield roughly the same result.

The response is predictable: "Impossible, insane ideas!" "Of course they're impossible – as impossible as saving the planet. But they are less impossible and so much more appealing than the only alternative on the table coming

from the rich and their hard-headed fiscally conservative political leaders: put more pressure on the poor in the name of some version or other of the user pays principle. Thankfully it's not going down very well. In the end, the poor won't pay because they can't pay. That's why it is even more pointless or insane sending invoices to them.

There are more considered reasons for entertaining these ideas. Even as a small handful of illustrative examples they point to a number of interesting conclusions:

1. First, there are means beyond the market, the principle of user pays and carbon trading for raising large sums of climate change adjustment and abatement capital.
2. Second, when the burden of raising this capital is more widely shared it can become very small. This means less pain for the weak and this in turn reduces policy resistance and obstruction. Nothing could be more important than this when, as indicated above, we confront so much resistance over a life death matter.
3. Third, the cost burden can be variously shared and directed to points of economic strength, again offering protection for the weak - the tax on inherited wealth proposal.
4. Fourth, money raised by fiscally creative means is removed from the constraining and impatient disciplines of commercial capital. As a result it is better. for example, at funding research and innovation, public education, best-practice promotion, regulation and enforcement, standards development, cross-subsidies for the weak, industry redundancy packages where necessary – because it is decent and because it, again, reduces political resistance – and global carbon sink maintenance.

The Indonesian proposal to pay rent for preserved forests provides a great example of the last investment type. More generally, however, many of these policies secure the background conditions necessary for carbon trading to work. In their absence it either fails to take off or fails later. One could say that carbon markets are like markets in general in this respect – they depend on stocks of public goods and social capital they cannot themselves produce.

Policy funded by carbon trading mechanisms and revenues can provide funding for these purposes by means of the original government sale of tradeable credits. But it is effectively a consumption tax that mimics the user pays principle and initiates a stream of further downstream user pays transactions. That fact has many implications and potential problems.

The most important one here, however, is that raising carbon “tax” revenues (the carbon price) intensifies some of the most important problems it is supposed to help alleviate: because user pays means burdening rich and poor and weak and strong alike . Alternatively, lowering carbon prices

weakens the revenue base for dealing with problems or challenges – eg research and innovation. Finally, everything only works as well as the initial pricing or target setting decision... It's putting all your eggs in one basket and easily corrupted basket at that: the determination of these policy settings is far more a matter of horsetrading than of science.

Of course the identification of alternative policy funding sources provides the answer to only one of many, many questions. These include questions that arise as one comes to allocate funds to this kind of policy or that (eg research or regulation) or to apply them to this emission sector or that (eg electricity or transport or building efficiency).

But one is surely in a better position to start with knowing that there are alternative funding sources or revenue streams that limit constraints and provide for greater flexibility, innovation and experimentation. These are the capacities that will make or break climate change policy.

This does not mean that market instruments like carbon trading have no place. It means however, that they have no special privilege or provide no dominant or overarching logic that threatens the logic of the planet saving enterprise. We do not save the planet on the condition that it is profitable or otherwise makes commercial sense. We use market instruments and the commercial logic they imply only as servant to this higher cause.

It's what is best for the planet now, not what is best for commerce or worse what is best for this or that particular commercial interest. The reason for this order of priorities is brutally simple. Without a planet and working life support systems, there is no commerce. There is no continuing human endeavour in any form. It's time for courage and creativity. It is truly astonishing that anyone, let alone intelligent accountable governments, don't get it yet.