

FISCAL CONSERVATIVES AND OTHER FOOLS IN BALI

Peter Vintila - 2007

What will it take to save the planet? A lot of money and effort to be sure. But, as much as it might be, a planet's worth a lot – more than any commercial valuation or cost-benefit analysis will ever reveal. So we need political courage and fiscal creativity. Why fiscal creativity? Because, in contemporary Australia, our political leaders all aspire to be fiscal conservatives just as the planet calls out for something bigger and better.

Fiscal conservatism is a miserable aspiration – and disempowering as well. It not only submits politics to the discipline of commerce but, as we see in persistently faltering climate change negotiations, it ultimately surrenders the totality of human material life to commercial logic. We cannot make this or that commitment to the planet's future life because it will interfere with national enterprise or global commerce. Commerce commands a lunatic right of way. Our leaders, grumpy and old or shiny and new, are lost. Of course, this disorientation, this incomplete adjustment to the fact that we no longer live on an infinite planet is more general – as once was the idea of a flat earth.

There they are, the flat-earthers convened in Bali for the 13th UNFCCC Conference to save the planet - or is it the idea of an infinite planet they have come to save as it disintegrates around them? It's hard to tell. We might no longer have a working planet next century but the global economy will be thriving. The Earth may be dying but Australia, especially, won't need to worry about that. It will still have the coal industry it fought so hard to protect from the finite-earthers, budget surpluses and an education revolution to boot. Who could ask for more? If it is not there yet, it is fast becoming that crazy.

Political courage and fiscal creativity were conspicuous by their absence in Bali. The best idea the world's rich nations could up with was squeezing the poor again. It's the exhausted or now, suicidal, logic of user-pays commerce. How cowardly, how unimaginative, how indecent and how bankrupt, how biologically bankrupt! Why were they there with their flashy delegations to say just that? A case of glitz and diplomatic gling to make up for substance? That tired trick again. Let's hope that something more than a few fists full of tourist dollars for Bali will come of it.

But let's see just how bad thinking in the developed world of high commerce turns out to be – and why those representing the developing world must decline. It's true enough that there are lots of poor people: more than five and going on eight billion. But, on the other hand, their average income is just \$4 per day. Half of them earn less than \$2 and a billion, according to World Bank estimates earn less than \$1 per day. Not much fat or reserve. To be sure, the rich world has far less people – around 1.2 billion – and that

makes it look a bit unpromising. Average daily incomes, however are so much are higher – around \$80 per person day. The richest one fifth of humankind earns 80 times as much as the poorest one fifth.¹

But sticking with the averages, how hard is it to do the basic maths here? A thinly stretched daily \$20 billion on one side and almost \$100 billion, a lot of it available for discretionary and 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, when you subtract for necessities, much more fat, much more substantial reserves. Beyond that, the rich world has vastly greater stocks of technical capacity and human capital.

So why would you scrounge around in the world's slums to finance an unprecedentedly huge world energy infrastructure refit. Why, for principle of course, a self-serving principle but a principle nevertheless: the user pays principle. But neo-liberal faith won't make the impossible work. Even while it's failing, it will mean more expensive food, less water, less sanitation, less clinics, less schools for billions earning \$1 or \$2 per day. It will appeal to the rich of course and to those of their self-appointed political servants who lack courage and imagination. Getting the poor to pay is always popular in these circles. But this time, while the planet's at risk, user-pays is a bad idea.

Again, it's indecent. It's also very hard and very slow – and that's why it will almost certainly fail. Remember, every new climate change report gives us less time. This is not an argument over agricultural subsidies or patents rights. This is dicing with death. Planetary death.

Added to that, developing world leaders today are tough, 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 their hearts and viscerally too, 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, we'll all be losers. Couldn't we avoid that fate on an income of almost \$96 million per day? What, after all, would it cost?

Fiscal creativity

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. Although difficult to determine, there is a time horizon here because the investment would eventually bring measurable monetary as well as immeasurable 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 a reason for going to any lengths. From that high ground however, it's hard to see what we may need by way of up-front investment money for a few decades.

¹ Figures taken or derived from World Bank data.

If Stern is right, we are currently looking for \$650 billion pa, a figure that will obviously rise in line 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 2% of their incomes. That's about \$12 to \$13 of their weekly \$560 and would finance their own and developing world greenhouse gas abatement – roughly half each. That's three cups of coffee at my favourite café. In any event, \$13 per well-off person per week adds up to \$650 billion pa.
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 also raise around \$650 billion pa.
3. Last but not least, a variation on the biblical injunction to "beat swords into ploughshares" The world spends 2% of annual GDP or \$1.35 trillion each year on its militaries. Half of that for a few decades would save the planet. (See our petition and related research at www.postkyoto.org)

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 high principle again.

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 "insane" sending invoices to them. There are also more considered reasons for entertaining these "impossible" ideas. Even as a small handful of illustrative examples, they point to a number of important conclusions.

First, they remind us that there are means beyond the market, the principle of user pays and carbon trading for raising large sums of climate change mitigation or green capital. We can pay a range of taxes variously progressive and variously remote from users.

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.

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. Some maintain that it is harder to get money from the rich

than the poor – and that this is at least part of the explanation for inequality. This is why fiscal creativity needs support from political courage.

Fourth, money raised by fiscally creative means is removed from the typically constrained and impatient orbit 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, providing protection for weak consumers and compensating especially exposed industries and their employees.

To make a slightly more general point, many of policies so funded 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 public goods and a supportive cultural fabric they cannot themselves produce. Indeed, carbon markets can threaten important civic and cultural resources, in particular the trust and good will necessary to contain generalised community resistance. Carbon trading, as often believed, is no panacea and cannot serve as a substitute for a much wider field of policy initiatives necessary to effective abatement.

Carbon trading as fiscal instrument

Policy funded by carbon trading mechanisms and revenues can provide some funding for these diverse “off-market” purposes by means of the original government sale of tradeable credits. But carbon credit sales are effectively a consumption tax that mimics the user pays principle and keeps it in play for longer as it initiates further downstream market transactions. That fact has many implications and potential problems.

The most important one here, however, is this: raising carbon “tax” revenues (the carbon price) to higher levels intensifies some of the most important problems it is supposed to help alleviate. Its user-pays character means burdening rich and poor and weak and strong alike. Alternatively, lowering carbon prices weakens the revenue base and diminishes capacity to deal with other problems or challenges – eg research and innovation. In the final analysis, everything only works as well as the initial pricing or target setting decision.

Many legislative packages appear to involve this syndrome: putting all your eggs in one basket, one might call it. Furthermore, the basket is weak and easily corrupted, more the outcome of horse trading and derailed democracy 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). This very short reflection on fiscal courage or creativity provides answers to none of these. It is about how to source money.

But one is surely in a better position as one embarks on the work of climate change management knowing that there are alternative funding sources or revenue streams that provide for greater sensitivity, flexibility and innovation than does money available on commercial or quasi terms. These are among the most important capacities that will make or break climate change policy.

All of 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 can rightfully displace 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 commercial logic only as servants to a 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 beggars belief that anyone, let alone intelligent accountable governments, are still on the contemporary equivalent of a flat earth.

Conclusion

A final note on defence funding diversion as a fiscally courageous and creative measure. This proposal, for all that it may seem impossible and far-fetched has special merit. But, first, the most obvious objection: wouldn't it compromise national security? Ten years ago, the world got by spending around \$700 billion on defence. Is anyone more secure because defence spending has almost doubled in the last decade? So let's have that peace dividend back again. There are some less obvious arguments here, too.

To be sure, the multilateral diversion of defence spending calls for an almost impossible leap of faith – but was there ever a better time for such leap? In return, it offers dramatically lower international tension and mistrust and a new environment for treaty-making. It is a diplomatic truism that tension and mistrust hinder treaty making and effective negotiations of any kind – including, obviously enough, climate change treaty negotiations. In other words, trust or social capital are essential to all international climate change policy making and there is no better way of promoting peace than reducing capacities to wage war.

This is almost certainly more important than making money available. But it does both – and why not do both if you can? By contrast, the logic and spirit of commerce is utterly sterile if not also destructive when it comes to trust building. It's obviously not as bad as war but to trust one's opponent in competition, even in market competition is, normally, to lose.

Finally, what are we most likely to be fighting over in the coming century? Yes, energy and adverse climate change impacts. Drought, famine, flooding, fire, disease, population displacement, mass migration... These impacts will give rise to fighting and social unravelling on global scales. Oil wars are already with us. So, though a bit less obviously, are water and food wars. At this stage, they're concentrated in Africa... but they could easily spread.

Didn't we, *homo sapiens*, begin our great adventure there 200,000 years ago? Is Africa to be our window on the end as well as the place in which it all began? It has a kind of epic symmetry, I suppose. But, poetry aside, doesn't it make a lot of sense to put money, money that would go into fighting the great climate and resource wars of the 21st Century, into actually preventing them?

That would be really clever, as defence funding diversion more generally, is really clever. It would actually prove that we deserve the name, difficult to live up to, that we gave ourselves in a moment of hopeful aspiration: *homo sapiens* again. And we could go on... building on the first 200,000 years. Wisdom, practical wisdom, the classical philosophers would have called it, wisdom as political courage and fiscal creativity. Finding these virtues will give us a chance. That would have made it all worth while Bali in this week.

