

Simonis, Udo E.

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Towards a "World Budget": thoughts on a world resource tax

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Udo E. Simonis

Towards a "World Budget" - Thoughts on a World Resource Tax

1. With respect to the topic "reform of the world monetary system" the discrepancy between word and deed is scarcely such as to encourage many words on a world budget. But the worldwide call for "permanent growth" (Brundtland Report) makes it necessary not only to think about the reform of institutions whose purpose is to expand production - such as GATT, the World Bank, the IMF - but also to consider the restructuring of production, especially the reduction of pollution. Two such concepts are currently being discussed: "green conditionality" and "debt-for-nature swaps". One concept that has still hardly been discussed is the introduction of a "world resource tax".
2. The tax systems of virtually all the countries in the world are extremely biased: They penalize the application of labour and capital, and they encourage the wasting of natural resources as well as environmental pollution. For instance, the tax volume of the OECD countries amounts to an average of 40 percent of aggregate gross national product; more than two-thirds of this comes from taxes on wages and income, trade and production. These taxes are levied within national borders and allocated through national budgets. There is no such thing as a world budget in the real sense of the word. The 0.7-percent rule with respect to development aid was conceived not as a global tax but rather as a voluntary commitment - and, correspondingly, it is not generally adhered to. National contributions to international organisation are, from a financial-technical viewpoint, dues or contributions.

3. If the Brundtland Report's definition of "permanent growth" is taken literally, it becomes immediately clear that the world economy is on a collision course with nature; environmental destruction is conditioned both by wealth and poverty, and international trade is by no means neutral towards the environment. Theoretically, continued growth in production with the consumption of energy and raw materials declining both in relative and absolute terms is conceivable; in practical terms, however, these possibilities run up against a wall of hard facts. Besides continued population growth, I will cite only three:

- debt - a development burden
- the balance of payments crisis - a perverted transfer of capital
- export pressure - an unfavourable forced sale

This produces a sort of economic-ecological vicious circle: The poor countries overuse their resource bases and thereby their environment; the sale of raw materials on oversaturated markets leads to falling prices, which in turn reduces net proceeds, etc., etc. Because of such conditions, appeals to protect the environment are ignored or met with derision.

A further factor must be added to this. A large share of fossil fuels and minerals are produced in the developing countries. This production is often in and of itself extremely destructive to the environment. Processing of these raw materials takes place as a rule in the industrial countries. Their technology and production have been characterized by cheap energy and raw material prices for decades; and this history conditions the continuing high levels of energy and raw material consumption.

Conclusion: Although there is not necessarily a fixed relationship between economic growth and the consumption of energy and raw materials, such a relationship does in fact exist, decoupling was never a political objective, and at best it has not begun to meet with any success until now. Put another way: The energy and resource efficiency of the "industrial world economic model" is highly insufficient. It does not provide permanent growth.

4. The conflict between the developing countries' undisputed need for growth on the one hand and the negative environmental effects of energy and raw material-intensive production on the other cannot be solved within the present framework. There is an under-supply of environmental quality as a public good, and there is an over-supply of environmental destruction as a public anti-good (the "free-rider problem" or the "prisoner's dilemma".) No single actor has sufficient incentive or the chance to change the situation. Basically, there are two alternatives available; (a) international cooperation (agreements and accords), (b) supra-national sanctions (negative and positive incentives).
5. With the "Montreal Protocol on the Protection of the Ozone Layer", we have a model for cooperation by which a group of air pollutants (CFCs) is to be reduced in percentage terms through voluntary commitments (quantity solution). It is a notable model of global diplomacy because it enables decisions to be made in spite of the insufficient degree of proof (motto: "Politics is good decisions on inadequate evidence"). Without changes or improvements, however, this model can scarcely be imitated.

In the current negotiations on reducing carbon dioxide ("Climate conference"), which is aimed at establishing

(regionally differentiated) emissions per person (CO₂ in tons) or maximum levels of concentration (CO₂ content of the atmosphere), an additional climate fund (fund solution) is envisaged. In this climate fund the industrial countries are to pay a levy according to their CO₂ emissions per person (current emissions and/or accumulated emissions) and to use the funds raised in this way to finance the restructuring of the developing countries, especially in the area of energy (levy solution). For the implementation of a climate treaty, a gradual procedure (a supplementary protocol on other greenhouse gases), improvements and amendments (rain forest programme) and verification procedures (monitoring) are planned.

6. With the introduction of a global resource tax (tax on the use of fossil fuels and non-renewable minerals), the use of resources will be tied to the environmental damage caused by their use (principle of global responsibility) with the aim of a net transfer. In this way the vicious circle between the ruinous exploitation of resources brought on by poverty in the developing countries and the waste of energy and raw materials caused by the wealth of the industrial countries will be broken (tax solution).

A global resource tax offers at the same time incentives and sanctions beyond the intended changes in relative prices in the economy; incentives for developing efficient technologies and products, to use renewable resources and sanctions against the existing inflexibility of the production structure. The tax can be, but does not have to be, levied and budgeted by a specially designed agency (International Tax Fund). The tax proceeds should be mostly, but not exclusively, used to replace other taxes which directly or indirectly pollute the environment. This resource tax should also be used to achieve a change in the structure of

the tax system as well as a net increase in taxes for the developing countries.

A part of the funds raised from the resource tax could be used directly to reduce the debt burden of the developing countries. A partial linking of funds to achieve environmental protection or promote environmentally sound technologies would be conceivable, but would become unnecessary if the preventions ecological effects of the altered tax structure were marked enough. To ease anticipated adaptation problems, the tax should be introduced in stages.

The objects of the tax can be the entire or a limited number of the particularly relevant non-renewable energy resources and raw materials. The second best solution would be the taxation of energy sources and raw materials traded internationally. The tax rates must be so high that a rapid decoupling can occur between economic growth and the consumption of energy and raw materials. The amount of taxation which is absolutely necessary, the taxation categories and the rates of taxation can only be speculated on here. Too little research has so far been carried out in this direction.

7. There are other reasons for the introduction of a resource tax to solve the existing dilemma between environment and growth. A tax solution, however, assumes the maintenance of various related factors. The proposal can only work if there are sufficient incentives to encourage countries to follow it. For developing countries, a particular incentive might be to end the ruinous exploitation of resources, which means achieving greater returns and a longer period of utilization on natural capital. There would be higher costs for the industrial countries; however, at the same time there would be significant savings from regenerative environmental protection as well as considerable

technological innovation. For the environment, positive effects would be immediately noticeable. In its totality, a world resource tax could therefore set a positive-sum game in motion. A lot depends, however, on the details of its design.

An additional important related factor is that the partial loss of national sovereignty (tax sovereignty) associated with the proposal should be balanced by a levying and apportionment mechanism, as simple as possible, and a clear verification process. The levying and apportionment of the tax are therefore of great importance. To avoid unnecessary bureaucracy, a semi-automatic levying and apportionment mechanism should be developed. Doing this requires intensive scientific preparatory work and global diplomacy, and also - similarly to the "Montreal Protocol" - enough flexibility to make subsequent improvements.