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TOWARDS A "WORLD BUDGET" – THOUGHTS ON A WORLD RESOURCE TAX

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To strike out on a new course without losing one's balance is more difficult than to follow traditional ways of thinking.

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With regard to the topic *reform of the world monetary system* the ratio of words to action is weighted too heavily towards the former. This may not encourage many words on a world budget. But the worldwide call for "sustainable development" (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 environmental pollution and resource depletion. Two such concepts are currently being discussed: *green conditionality* and *debt-for-nature swaps*. One concept that has still hardly been discussed is a *world resource tax*.

The present tax systems of virtually all the countries in the world are extremely biased: They penalize the input of labour and capital, and they encourage resource depletion and 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 not yet such a thing as a *world budget* in the real sense of the word. The 0.7 percent rule with respect to development assistance was conceived not as a global tax but rather

as a voluntary commitment of the industrial countries – and, correspondingly, is not universally adhered to.

Taking the Brundtland Report's definition of "sustainable development" literally, it becomes immediately clear that the world economy is on a collision course with nature. Many products and technologies are not sustainable in the long run; 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 is conceivable when the consumption of energy and raw materials is declining both in relative and absolute terms. Practically, however, these two possibilities run up against a wall of hard facts. Besides continued population growth, the major three are:

– debt: a development burden
– the balance of payment crisis: a perverted transfer of capital
– export pressure: an unfavourable forced sale

These facts produce a sort of economic-ecological vicious circle: The poor countries overuse their resource base and thereby their natural environment; the sale of raw materials on oversaturated markets leads to falling prices, which in turn reduces net proceeds, etc. Because of such conditions, appeals to protect the environment are ignored or even 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, however, mainly takes place in the industrial countries; it is their technology and products that have been shaped by cheap energy and raw material prices for decades; and this specific history conditions the continuing high levels of energy and raw materials consumption.

Though there is no case for a fixed relationship between economic growth and the consumption of energy and raw materials, decoupling was never a real political objective; at best it just happened. Put another way: the energy and resource efficiency of the *industrial world model* is highly insufficient, it does not guarantee sustainable development.

The conflict between the industrial countries' ongoing economic growth and 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. These is an under-supply of environmental quality as a public good, and there is an over-supply of environmental destruction as a public bad. No single actor has sufficient incentive or the chance to change the situation (the "free-rider problem" or the "prisoner's dilemma"). Basically, there are two alternatives available: (a) international cooperation (*agreements* and *conventions*), and (b) supranational sanctions (*negative* and *positive incentives*).

With the "Montreal Protocol on Substances that Deplete 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 insufficient evidence (motto: "Politics is good decisions on basis of inadequate knowledge"). Without changes or improvements, however, this model can scarcely be imitated.

In the current negotiations on reducing carbon dioxide (*Climate Convention*), aimed at establishing regionally differentiated agreements on emissions per person (CO_2 in tons) or on maximum levels of concentration (CO_2 content of the atmosphere), an additional climate fund (*fund solution*) is envisaged. For this fund the industrial countries are to pay a charge on their CO_2 emissions (current emissions and/or accumulated emissions), and the funds raised shall be used to finance restructuring in the developing countries, especially in the area of energy (*charge solution*). For the actual implementation of a climate convention, a gradual procedure (supplementary protocols on other greenhouse gases), amendments (rain forest programme) and verification methods (monitoring) are being proposed.

While these proposals on a climate convention proceed and hopefully are brought to a good end by 1992, a world resource tax is not yet on the agenda. This situation of non-discussion must be overcome. What is the rationale of such a suggestion?

With the introduction of a *world resource tax*, i.e. a tax on the use of fossil fuels and non-renewable minerals, resources will be tied to the environmental damage caused by their use (*global polluter-pays-principle*), with the aim of a financial net transfer from the North to the South. In this way, the vicious circle between the resource depletion brought about by poverty in the developing countries and the waste of energy and raw materials in the industrial countries will be broken (*tax solution*).

A world resource tax offers at one and the same time incentives and sanctions through the induced changes in relative prices in the economy; incentives for developing efficient technologies and products and for using renewable resources, and sanctions against the existing energy- and raw material-intensive production structure. The tax can be, but need not be, levied and budgeted by a special agency (*ITF–International Taxation Fund*). The tax revenue should predominantly, not exclusively, be used to replace other taxes which directly or indirectly lead to environmental pollution and resource depletion. This world resource tax thus would lead to a change in the structure of the tax system as well as to a net increase in tax revenue for the developing countries (*international resource transfer*).

A part of the funds raised from the resource tax could be used directly to reduce the debt burden of the developing countries. A certain linking of the funds to environmental protection activities or to the promotion of environmen-

tally sound technologies would be conceivable, but might become unnecessary when the preventive ecological effects of the altered tax structure were strongly marked. To ease anticipated adaptation problems, the tax should be introduced in stages.

The object of taxation could be the entire *or* a limited number of the relevant non-renewable energy resources and raw materials. The second best solution would be the taxation of the internationally traded energy sources and raw materials. The tax rates must be high enough to induce a rapid and drastic decoupling between economic growth (GNP) and the consumption of energy and raw materials. The necessary volume of taxation, the various tax categories and the specific rates of taxation can only be speculated on here. Too little research has so far been invested in these questions. However, a fraction of the research activities devoted to a "reform of the world monetary system" would suffice to reach the necessary clarifications.

To solve the existing dilemma between environment and development, there are, as was shown, good reasons for introducing a world resource tax. A *tax solution*, however, requires the adherence to certain rules. The proposal can only work if there are sufficient incentives to encourage countries to follow it. For the *developing countries*, a particular incentive might be to end the ruinous exploitation of resources by achieving greater returns and a longer period of utilization on this natural capital. There would be higher costs for the *industrial countries*, but significant savings in the curative environmental protection activities; there would also be technological innovation. For the *natural environment*, positive effects would immediately be noticeable. In sum, a world resource tax could set a positive-sum game in motion. A lot depends, however, on the details of its design and implementation.

An additional secondary factor is that the partial loss of national sovereignty (*tax autonomy*) associated with the proposal should be balanced by a simple levying and allocation mechanism and a clear verification procedure. To avoid unnecessary bureaucracy, a semi-automatic levying and allocation should be developed. This requires some serious scientific work as well as global diplomacy, and also – similarly to the "Montreal Protocol" – enough flexibility to allow for subsequent changes and improvements.