EARTH: hostage to fortune in the North / South divide

The Rio Earth Summit was billed as "the last chance to save the planet". In fact, writes DAVID RICHARDS, it was about the bottom line: the claims of nations on natural resources and created wealth.

Over 100 heads of state, and ministers from 178 countries, attended the United Nations Conference on Environment and Development (UNCED) in June. Formally about safeguarding the world's environment for future generations, the summit was in substance mainly about enlisting the help of the North to safeguard the South from poverty.

There had been a previous summit on this issue, at Cancun in Mexico in 1981. And the GATT negotiations over world trade, still under way in the Uruguay Round, were very pertinent to it. But never before had the South held a valuable hostage with which to bargain. The poorer nations hold most of the world's environment under their control.

At a previous UN summit on the environment (at Stockholm in 1972), it was not so evident quite how bound up with the rich/poor divide were environmental issues; nor had a hole yet been detected in the ozone shield that protects earth.

The drama in Rio hinged on whether the USA, the largest consumer of natural resources, would agree to stay its hand, or would insist on carrying on with business as normal. If the latter, other nations would have little compunction about seeking to emulate its environmentally destructive lifestyle.

The problem for the US was that business as normal involves running just to stand still - even without bowing to moral pressure to stop elbowing others aside at nature's table. For two decades real wages, as measured, have failed to increase (though that should encourage politicians to measure US environmental standards, which have generally improved). The US government budget deficit is now the highest it has ever been in peace time in relation to the country's income - almost 7%.

President Bush claimed that the country just did not have the wherewithal to be generous to those at the back of the queue. In terms of domestic politics, in an election year, he was right. The US economy is built on low taxes and high energy consumption. Free enterprise and the automobile are its essence. For the US, a fairer sharing in the jungle involves higher taxes and much lower energy consumption. How can the jungle's most powerful leopard be persuaded to change its spots?

The weaker beasts threaten to take away the jungle. But they, too, depend on it. A credible way forward will have to serve the self-interest of, and be visible to, every short-sighted beast in the jungle.

IT IS POSSIBLE that the earth's carrying capacity may be stretched much further through judicious exploitation. The one thing that all politically constrained negotiators at Rio were agreed upon was that development must take place. Disagreements revolved around how to make it "sustainable".

The key to sustainable development is that it must be, and be seen to be, both efficient and equitable. Global economic growth will be sustainable only if opportunities are shared fairly and markets are made to work efficiently. The rhetoric of Rio implied both these axioms.

The failure was one of fundamental philosophy. The United Nations has no definition of what is meant by fair sharing of opportunities, so let us provide one as a prerequisite for making judgements.

Fair sharing among individuals and nations depends upon equal entitlements to natural resources and the individual's right to the fruits of his labour as valued by undistorted markets.

These two ingredients of principled and sustainable development find expression wherever genuine moves towards land reform and free trade take place. They are two sides of the same coin.

"FREE TRADE" is shorthand for efficient market institutions. Such institutions often have to be created by governments. In the case of "public goods", for example, they do not emerge from *laissez faire* attitudes. Clean air is a public good, which can only be preserved by common action. It cannot be created, packaged and marketed by individuals.

Placing economic value on the environment was common currency at Rio. Rather than allowing nature's capital to be run down in order to have development on the cheap, the full replacement cost of a natural resource should be included in the price charged for using it.

That is the opposite of policies that have been pursued in the Amazon rainforest, for example. The resources of the jungle were not only regarded as free, their destruction was actually subsidised. Merely removing the subsidies has helped to reduce the rate of destruction by half since 1989, the Brazilian government claims.

Energy and water are squandered world-wide due to government subsidies.

Proceeding to incorporate the full replacement cost in the price of a resource, however, involves the further step of deciding who is entitled to the economic value of that resource. This issue straddles our two axiomatic principles.

Sustainable forestry, for example, involves investment and labour in replanting, as well as felling. Interest and wages are earned. In addition, however, the enhanced price of timber due to reduced supply provides rental income for those plantations which happen to be in the more fertile or accessible locations. That belongs to the owner of the location. But who should the owner be? This is where land reform comes in.

Another commonplace at Rio was the view that the natural environment belongs to everyone. In practice, the term "environment" is used to cover all those natural resources that are not yet owned by anyone, but the distinction is artificial. The natural environment encompasses all that a human being is born into apart from other human beings and their social and physical artifacts. That heritage (deny it if you dare) is the equal birthright of everyone. But, because many parts of it can be parcelled up and sold, they have been.

This is another case, as with public goods, where governments must act. Resources which are natural - which are not the product of effort - and which therefore need no incentives to be produced, should not be allowed to pass into private ownership simply because they can be conveniently bounded and claimed. The economic value of those resources should help to pay for the public goods which individuals without any common organisation have no incentive to produce.

The obstacle to moving from the current *laissez faire* system of environment ownership to a principled system mediated by governments, is the vested interests of those who have already purchased, inherited, or claimed legal entitlement to the environment.

Even those natural resources which apparently have no owners are effectively claimed by users. Timber supplied by truly sustainable tropical hardwood enterprises would be more scarce and so command a higher price than today's timber, much of which would be "rent". Today's consumers do not have to pay that rent, so they effectively exercise ownership of financial equity in the natural forests. But because they cannot store the equity as assets, they blow it through over-consumption.

In the case of crude oil, OPEC governments have at times been able to wrest the financial equity away from consumers. By restricting output (thus prolonging its life) they ensured that a price nearer to replacement cost was commanded (as evidenced by the stimulus given to oil substitutes research) and reaped natural resource rents which were then used for whatever investment or consumption they chose.

THE MOST difficult question - which countries should pay for whatever actions were chosen - should not have been a problem. An effective "green" package must involve crystallizing for sovereign owners of natural resources the rents previously dissipated to consumers through over-consumption. That rent forms a natural fund for paying for the package, including compensation to those disadvantaged, which it is not beyond the wit of governments to capture.

What Rio needed to sort out was the ownership of the resources and the compensation to consumers for higher prices. In the event, because these issues were not addressed, and therefore no source of funds other than higher taxes in the North was considered, action was paralysed.

All nations were at pains to safeguard their sovereignty over the natural resources, including plant and animal species, within their boundaries. The advantages of common action to restrict the use of those resources and reap rents for themselves, as OPEC had done in the 1970s, were foregone. The South contains many of the most valuable natural resources, so such efforts would have been to their advantage.

The primary industries minister of Malaysia, the hard-line leader of the Group of 77 less developed countries, has said: "I'm poor and need my forests to get on in life so, if you want them, you must pay - and give me technology and investment."

Malaysia plans to log half its forests by the end of the decade. To keep much of that forest intact as a global trove of biodiversity and a global cooling plant it will need to be offered "enough to compensate for the loss of revenue we could gain from our forests," the prime minister has said.

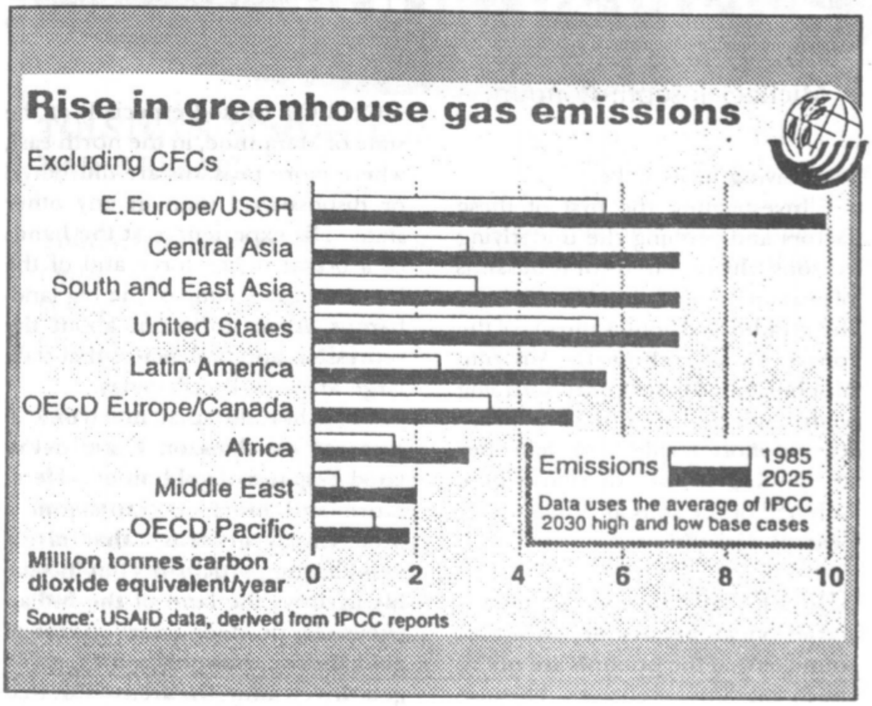
If the Group of 7 leading industrial nations, for example, really wishes to import those environmental services, it will arrange procedures whereby adequate rental payments are made available. Setting aside global land for nature will increase pressure on other global land uses and raise the rental value of all land, including the forests, which will provide a source of funds for those payments.

SUCH A common commitment to higher costs for the sake of maintaining common resources requires the ability to organise a common response among nations. The European Community's failure to agree on a self-imposed "carbon tax" was not an encouraging precedent. However, the political obstacles are surmountable.

The EC Commission's proposed carbon tax, levied at a rate of $10 per barrel of oil equivalent on fossil fuels, is designed to reduce consumption of non-renewable energy resources and to cut back the carbon dioxide emissions which are likely to cause global warming. It would put a price on the atmosphere, allocate atmospheric use-rights, and claim a natural resource rent for use by the community.

The rental value of the atmosphere for use as a dustbin is evenly distributed - except where ventilation is restricted, as in Los Angeles and Mexico City, where it rises. A uniform tax per unit of carbon dumped is therefore proportional to rental value. (A uniform tax per acre of land would not be, as land rents vary spatially.) It asserts the equal ownership of each citizen of a part of the economic value of natural resources.

The individual's share of value may



be received in many ways. The provision of public goods which benefit all is an obvious priority. In the case of the EC carbon tax, funding of "overseas aid" would appear to be a prudent investment on behalf of the EC citizen.

In simple terms, no more direct action could be taken to avert the population growth in the South which so worries Northern citizens than the establishment of educational institutions, especially involving women. Educated women in poor countries have on average only two offspring (which means a stable population); uneducated women have four.

The less the population of the South grows, the less the equity ownership of the atmosphere by Northern citizens is diluted. In recent years OECD countries have contributed half the global carbon dioxide emissions, developing countries a quarter. These proportions will be reversed, on present trends, by the middle of the next century. Figure 1, published in the *Financial Times*, tells a similar story.

Short-sighted opposition to the carbon tax has been mounted by European politicians, especially from the weaker economies. They fear that higher energy costs will make industry less competitive. (A tax on rent cannot raise prices, but in this instance rent is not already included in the price, and the tax's job is to include it). The EC plan, therefore, makes introduction of the tax conditional upon similar measures in the USA and Japan. As the USA will not introduce a carbon tax, the plan is a dead letter. Even so, the EC nations are not endorsing it.

A better approach, it has been argued, would be to proceed with, say, a $1 levy per barrel, and increase the levy in line with any energy efficiency measures in the USA, which would probably involve more costs in the USA than carbon taxes. The competitive disadvantage would thus be annulled, and the opportunities for increase legion.

Taking a global perspective, the World Bank points out in its 1992 World Development report that if a carbon tax was being levied at $25 a ton of carbon and the proceeds shared out between nations on the basis of population density, the rich countries would be paying the poorer countries compensation for using their share of the atmosphere a sum roughly equivalent to all official overseas aid - $70 billion in 1989. The billions of new dollars actually committed at Rio can be counted on the fingers of one hand. If the richer countries are unwilling to settle the bill for a better future, a worse one will be their reward.

THERE IS a politically viable way forward which does not involve taking away from voters what they already have. Governments may reduce voters' expectations of windfall gains in the future, by pruning the sources of windfalls.

Green taxes may be used to ensure that increments in private income from appreciation of the market value of natural resources are no longer anticipated. That will bring an end to rises in the capital values of those incomes. Reduced capital gain expectations will cause the rate of saving to rise, in order to meet future income requirements. That will cause interest rates to fall.

More capital supplied at lower interest rates will benefit capital projects with longer term pay-offs - just the sort of projects involved in environmental protection and enhancement. Falls in interest rates will lower the capitalisation rate of rental incomes, raise capital prices and shield owners against capital losses when taxes on rents are introduced. Capital gains will be prevented in the future by taxing rent increments at 100%.

During the second week of the Rio summit, *The Economist* noted that "since most environmental damage is caused by selling nature's resources too cheaply, governments have opportunities to make green policies a source of revenue, not a drain on cash." The danger is that such opportunities may be taken in terms of selling off the remaining commons to private owners, as is generally advocated by free market economists.

Milton Freidman, for example, according to a letter just before Rio in the *Financial Times* from Prof. Steve Hanke, is of the view that, "given the despoilation left by public ownership throughout the world, what we really need isn't an Earth Summit, but a Privatisation Summit."

Federally-owned lands in the US are in worse shape than comparable private lands because they are notoriously under-priced. Full market rents should be charged to users. Selling the public domain in private parcels, including pollution rights, which may increase in sale value and hence reduce the incentive of owners to save, is not the way forward for green capitalism.