Whatever a society can do, it can also finance: financing sustainable development

Suleika Reiners is a Policy Officer and Dr Matthias Kroll is a Researcher for Future Finance at the World Future Council

Since the Rio Summit of 1992 the imperative of sustainable development has become widespread. Today, as we arrive at the Rio+20 Summit, significant progress has been made in only four of the 90 environmental goals. These are eliminating the use of substances that deplete the ozone layer; the removal of lead from fuel; access to water; and research to reduce pollution of the marine environment. Yet progress in the most important goals agreed to at Rio, including on climate change, desertification and drought, is slow if not completely absent. We are facing an ongoing climate crisis and the non-attainability of the Millennium Development Goals. Over the last two decades, the average amount of CO_2 in the earth's atmosphere has shown a steady rise of nine percent since 1992[1].

To sum up, 20 years later, despite having internationally agreed goals, the world is still on an unsustainable path. The main reason for this is not a lack of political will as such but rather unused possibilities of finance.

"... the world is still on an unsustainable path. The main reason for this is not a lack of political will as such but rather unused possibilities of finance"

An abundance of money and ideas

Create sustainable investment opportunities for private capital

There is a big amount of private money waiting for sustainable investment, provided it is lucrative. This is currently the case for few sustainable investment opportunities. However, green investment could be made widely profitable and thus become attractive for private investors. One field-tested tool for this are feed-in tariffs: a targeted subsidy that obliges energy suppliers to buy electricity produced from renewable resources at a fixed price. These guarantees ensure the support of all viable renewable energy technologies and investment security.

Here the International Monetary Fund (IMF) has a role to play[2]: the IMF has the ability to create its own reserve currency - the so-called Special Drawing Rights (SDRs) - when its members tell it to do so. In April 2009 the G20 instructed the IMF to create new SDRs worth US $250 billion. The Stiglitz Report[3] also claimed a greater role for SDRs in the international monetary system, with a regular and automatic issuance.

A global sustainable development fund financed by an innovative use of these SDRs could provide the money needed to implement feed-in-tariff legislation. Inflation would be avoided because SDRs are given against performance, namely the production of renewable energies. This can immediately introduce a huge supply of solar and wind energy in less developed countries. In this field alone a market for private investors worth several hundred billion a year could emerge.

Don't be afraid of planning and governing

A CEO needs to have plans – and plans that can evolve. Governments as well. As Ha-Joon Chang succinctly puts it[4]:

> *"Suppose that a new CEO arrived in a company and said: 'I am a great believer in market forces. In this fast-changing world, we should not have a fixed strategy and should maintain maximum possible flexibility. So, from now on, everyone in this company is going to be guided by ever-changing market prices.' What do you think would happen? Would his employees welcome a leader with a vision fit for the twenty-first century? Would the shareholders applaud his market-friendly approach and award him with a pay rise? He wouldn't last a week.*
>
> *People would expect a new CEO to say something like: 'This is where our company is today. That is where I want to take it in ten years' time. In order to get there, we will develop new industries A, B and C, while winding down D and E. In order to develop our subsidiary in industry A, we will have to cross-subsidise it with the profits from existing businesses. In order to expand our business in industry C, we will need to increase our Research & Development investment in the next five years.'"*

Best practices of companies and best policies of states are both required. Companies can contribute their creative ideas and innovative solutions. Some have introduced environmental profit and loss accounts. However, the pool of green corporate champions is small. Yet while companies act at the micro and accordingly grassroots level, governments operate essentially at the macro or rather gross level. We can't seriously leave our environment and the well-being of present and future generations in the hands of single companies and consumer groups. We can't seriously leave it to chance to either destroy or protect and support the environment and people's well-being. We can't seriously leave it to a patchwork of volunteer initiatives if we want to have a chance to be successful and efficient.

Why take an inefficient roundabout route via incentives when it is more effective to ban harmful practices directly? For example, Ireland will introduce a plastic bag tax in 2013. But a complete ban on plastic bags was successfully implemented by Rwanda, Los Angeles and other cities in the United States. Spain has made the installation of solar cells obligatory for new houses and renovations. The top-runner policy from Japan mandates the most resource-saving products to be the legally binding minimum standard.

Use states' capacity for steering

Public investment is needed because there is not always a super return or an attractive economic profit, yet the investment is highly important for ecological and social reasons. Take as an example public transportation, which is essential for environmentally friendly mobility: since its privatisation in many countries rural areas have become more and more excluded. The quality has gone down and prices have gone up. It has become unattractive and unaffordable for many people.

Therefore concerted public investments and well-targeted subsidies are invaluable, in public transportation as well as in renewable energies, energy and resource efficiency and social infrastructure. Good healthcare, good education, good shelter as well as communication and freshwater supply needs to be reclaimed as basic rights for all. In the same way, harmful subsidies, such as to the coal, gas and oil industries must be removed.

The International Labour Organisation[5] estimates: *"The transformation to a greener economy could generate 15 to 60 million additional jobs globally over the next two decades and lift tens of millions of workers out of poverty."* As social dumping is not a way forward, a social protection floor must also be put in place[6].

Public investment needs to be directed especially into weaker economies, so as to promote progress and distribution of wealth. Financing can be drawn from an expanded role of already existing development banks like the European Investment Bank and from specialised green and social development banks. Public procurement is also a strong means to promote sustainability, as public authorities from the local to the global level have a huge spending capacity.

Make the erosion of public finance history

Governments' failure to effectively respond to social and environmental problems is also due to a global tax race to the bottom: tax competition has driven down rates of corporate tax and top brackets personal income tax. Since the European Union expansion, this process has especially accelerated in the flat-single-rate tax regimes of Central and Eastern European member states.

Massive tax avoidance has been tolerated, resulting in lost revenues which could be used for sustainable development – a major obstacle in both the North and the South. Developing countries lost between US $775 billion and US $903 billion in 2009[7] because of accounting practices of multinational companies and the use of tax havens by them as well as elites in the developing world. There can be no fiscal health so long as enormous amounts of trade and investment flows are channelled to tax havens.

Measures taken to address this issue remain unnecessarily ineffective. The OECD standard for tax transparency, for example, implies that tax havens are only obliged to provide information upon request. This leads to the paradox that a suspicion has to be provided before - and so without - information. In lieu thereof, an automatic exchange of tax information between states would be effective and technically realisable.

In addition, the United Nations Committee of Experts on International Cooperation in Tax Matters under the Economic and Social Council (ECOSOC) could simply be upgraded to an intergovernmental body. It's a pity to leave multilateral agreements as unsealed gentlemen's agreements. To be effective, they must, of course, be enforceable by international courts.

Financial assets are more than three times the size of the global Gross Domestic Product. In other words, financial assets are more than humanity produces in a period of over three years; the total value of the world's financial stock has increased from US $175 trillion in 2008 to US $212 trillion by the end of 2010[8]. This is in spite of the financial crisis and has even surpassed pre-crisis heights. This economy is stupid, isn't it?

Yet the economy doesn't need to stay stupid. It doesn't need to be rigid - just fair. Taxes are simply taxes, not expropriation. The reduction of corporate taxes and of taxes on higher incomes that we have observed for so long has to be reversed. Achieving a reduction of debt could be a piece of cake. There is no reasonable cause for the huge income gaps we have among the population. The argument that some people work harder than others and therefore have earned their wealth simply does not hold.

Taxes can be implemented unilaterally. They are, of course, more efficient if they are coordinated across jurisdictions so as to minimise tax competition and tax avoidance. Wealth taxes, a common assessment basis for corporate taxes, and a ceiling for tax reduction are useful means. The whole world does not necessarily have to implement these means simultaneously – alliances of vanguards or regional policies such as for the eurozone are also an option.

Taxes are a much more sustainable source of finance than private capital flows, which come and go quickly. As the Tax Justice Network[9] emphasises:

> *"Tax is the most sustainable source of finance for development. […] To meet the Millennium Development Goals, OECD countries have been urged to raise their levels*

of aid to 0.7 percent of gross national income – but this is as nothing when compared to potential tax revenues."

The missing key: democratic leadership

Evidence shows that progress is still much weaker than needed, even though we are not short on money and ideas. Businesses are playing a recognisable role at Rio+20, while governments often fail to agree and implement policies for sustainable development. No single state or bloc of countries appears to want to go ahead. It is what the political scientist Ian Bremmer has described as the G-zero world as opposed to the G20. The main obstacle remains single interest policies instead of policies for the common good of sustainability. Do we have to live with it or can we overcome? In any case, at least we have values and means which we can follow.

Fair play – responsibilities are common but differentiated

Fair play includes burden-sharing between rich and poor countries. Priorities are, of course, reflected in public budgets more than in declarations and action programmes.

One fair way is a universal fiscal equalisation scheme: best policies have already proven to be effective. Germany has, for example, a system of financial income adjustment between federal states, in order to compensate for regional and structural inequalities. Such a model would be consistent with the International Covenant on Economic, Social and Cultural Rights.

The second crucial pillar builds on the polluter pays principle: Those countries that are most responsible for climate change and have benefited from the damage have to compensate for the costs. Their climate debt has to be paid off over the coming years and decades[10].

Ombudspersons for future generations

If we want an environmentally friendly and socially just world, these need to be the leitmotifs of decision making at all levels – globally, nationally and locally. This would be the key role of ombudspersons elected by the United Nations and national parliaments. The World Future Council is working to have ombudspersons established under the Rio+20 Summit's major theme of Institutional Framework for Sustainable Development (IFSD). Precedents already exist in Hungary, Israel and Wales.

Ombudspersons are essential to strengthening the leitmotifs of ecological and social well-being for present and future generations. They can ensure a long-term agenda in policy making. They need to become the CEOs for sustainability. ■

1. UNEP p 28 (2011): Keeping track of our chancing environment
www.unep.org/GEO/pdfs/Keeping_Track.pdf
2. Kroll, Matthias (2011): Financing climate protection with newly created SDRs, WFC Discussion paper no. 3
www.worldfuturecouncil.org/fileadmin/user_upload/PDF/WFC_-_SDR_Proposal___Discussion_Paper_No_3_05_2011.pdf
3. Stiglitz, Joseph E (2010): The Stiglitz report, New York
4. Chang, Ha-Joon (2010): 23 things they don't tell you about capitalism, London
5. International Labour Organisation (ILO) News, 31.05.2012
www.ilo.org/global/about-the-ilo/press-and-media-centre/news/WCMS_181795/lang--en/index.htm
6. International Trade Union Confederation (ITUC) (2011) p 4: Workers and trade unions' consolidated contribution to the United Nations Conference on Sustainable Development, Brussels
7. Kar, Dev and Freitas, Sarah (2011) p vii: Illicit financial flows from developing countries over the decade ending 2009, Washington
www.gfintegrity.org/storage/gfip/documents/reports/IFFDec2011/illicit_financial_flows_from_developing_countries_over_the_decade_ending_2009.pdf
8. McKinsey Global Institute: Mapping global markets 2011 p 2
www.mckinsey.com/Insights/MGI/Research/Financial_Markets/Mapping_global_capital_markets_2011
9. Tax Justice Network
www.taxjustice.net/cms/front_content.php?idcat=2#1
10. Development dialogue no. 59, 06/2012 p 76
www.dhf.uu.se/publications/development-dialogue/dd59/