Climate change, global ethics and the market

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> The sun shall be darkened, | earth sinks in the sea,
> Glide from the heaven | the glittering stars;
> Smoke-reek rages | and reddening fire:
> The high heat licks | against heaven itself.
> *The Edda* (LI. Frá Ragnarökum)

As diverse factors as the Hurricane Katrina, the IPCC (2007) report, Al Gore's film (*An Inconvenient Truth*), and the Stern (2007) review, have dramatically increased world awareness about the dangers of global heating. Different approaches to a possible solution are beginning to surface in the public debate. In Scandinavia, for instance, the ecologists' radical vision of a simpler life close to Nature and away from the Market confronts the dream of a high growth, innovative capitalism, where the magic of technology solves all problems. These are often imaginative visions, but what is still lacking in all of them is a clear and explicit acknowledgment of the strictly global character of the climate change problem. What is lacking in the debate is the overt acceptance of the fact that in the global warming problem "we are all in the same boat," that is, all of the globe's population. Global problems need global solutions. A solution to global warming poses from the start the problem of the extremely biased world income and wealth distribution. A realistic solution should necessarily incorporate global redistributive mechanisms, including market mechanisms.

The essence of the problem can be grasped through the simplified situation of an imaginary island economy. Thriving inhabitants and successful consumers are expanding the island garbage dump at a high and increasing rate. The poisonous substances in the garbage seep into the ground and infect the underground water. Careful study of the situation by experts concludes that the explosive growth of the garbage dump must stop. The amount of waste produced cannot continue to grow. The question for the islanders is how to achieve that. One islander proposes a straightforward solution: nobody can increase his/her present amount of waste. (It happens to be a rich islander who produces a high amount of garbage.) Another islander, a small waste producer, thinks that the allowed amount of waste anyone can leave must be equal for all. Shall big polluters be rewarded with prolongation of their privilege? No Sir, all islanders have the same rights, he says. After long discussions, there is a vote. The supporters of equal waste quotas win the referendum with wide margin — high waste islanders are a small minority. From now on, all islanders have the right to dump the same share of the permissible/sustainable amount of garbage.

But wait a moment, says an island-economist of post-autistic conviction. The market can help us to find a better solution to the problem. We do not need rigid regulations fixing the amount of waste everyone is allowed to produce. We can create a market in which the equally allotted waste rights can be exchanged. Those who do not use all their allotted rights can sell their surplus to those who want to dump more waste that the allotted quantity, and are able to pay for it. This is a preferred solution for all those whose waste production is different from the allotted quota. Moreover, the system has a bonus: it reduces income inequalities.

According to climate scientists (IPCC, 2007) our cosmic island is in a similar condition — yet much worse. Global greenhouse gases must be *halved* by 2050. What can be done?

Shall every country reduce their emissions by 50 percent, as in the rich islander's proposal ("grandfathering")? Shall the U.S. halve its carbon dioxide emissions from present 20 metric tons per capita to 10 tons in 2050, while Vietnam halves its only ton (latest data from the World Bank, for 2005)?

This does not look like a convincing solution for the 84 percent of the world's population not living in high income countries. They produce only 2 tons per capita in average — less than a sixth of what is produced by the inhabitants of the rich world. Had the world a democratically elected parliament, or should a world referendum take place, the poor islander's principle of equal rights should win by a large margin.

One could also say with Kant that equal emission rights for all is the only *rational* choice for every individual in the planet. If everybody is allowed to emit as much as I can, I should not produce more than the globally sustainable average. That is the only sustainable way in which my individual action can be universal law (Kant's *categorical imperative*). Also for Spinoza, "men who are governed by reason — that is, who seek what is useful to them in accordance with reason — desire for themselves nothing, which they do not also desire for the rest of mankind." (*The Ethics* IV, Prop.18, Note)

Equal emission rights for all would imply that all rich countries must at once limit their carbon emissions to the world average of 4 tons per inhabitant, and then gradually reduce them till 2 ton year 2050. For low polluters such as Sweden or Switzerland, which emit 6 tons per inhabitant, this does not look like an impossible undertaking or a catastrophic welfare loss. But it would certainly be for most other rich countries.

Here comes the island-economist's market solution to our rescue. Rich countries do not need to drastically and immediately reduce their emissions to 4 tons per inhabitant. They can buy emission rights from low-polluting countries such as Vietnam or Guinea. They can so reduce their emissions cost-efficiently, only to the level at which the unit cost of emission-reducing measures is higher than the market price of a unit emission permit. Poor, low-polluting countries, on the other hand, would gain large incomes from their sales of emission permits. Böhringer and Welsch (2006) simulated the effects of different ways of sharing the costs of lowering global greenhouse gas emissions. An equal allocation of emission permits in proportion to population would give Sub-Saharan Africa and India the greatest gains. Smaller benefits would accrue to the Middle East and North Africa, and even smaller so to Latin America. China is more or less unaffected by the scheme. The costs are mainly disbursed by the rich countries and Eastern Europe/ex-Soviet Union.

Achieving this type of market-based solution to climate heating would involve of course grand institutional innovations. The point of departure of Peter Barnes (2006) institutional analysis is the "tragedy of the commons." That which is common to the greatest number has the least care bestowed upon, as Aristotle once formulated the problem. Resources without clearly defined ownership tend to be overexploited and eventually exhausted. If, for instance, the atmosphere were owned by a Waste Management Inc., it would charge dumpers a fee and limit emissions.

However, even for neoliberals, a privately owned atmosphere is unthinkable. Barnes suggests instead endowing the management of the atmosphere to a trust. If instead of Waste Management Inc. a trust owned the sky there'd be a bonus: every citizen would get a yearly dividend check. This is not just a dream: since the 1980s such an institution, the Alaska

Permanent Fund, manages that state's oil resources and distributes dividends among its inhabitants.

The solution is thus to develop strong institutions that have ownership rights over common resources. This is an important insight, but ignores the fact that global warming is a global problem. The atmosphere is a global good, and the tragedy is being played out on world stage. A system whose rules are followed by just a few and whose legitimacy is not recognised by all is not an effective system. Think if the world's three billion poor find it legitimate for them to achieve the same greenhouse gas emission levels than the rich…

Also the ecologists' radical visions often suffer the same lack of a global ethics perspective. A recent study by the Dag Hammarskjöld Foundation in Uppsala (Lohman et al., 2006), for instance, strongly chastise all market-based attempts to solve global warming, such as emission rights trading. It pleads instead for locally-based, climate-friendly, planned economies. But the problem with the approach is that a climate-friendly economy, even a planned such, is almost by definition a *global* planned economy. And of course, also within a global planned economy are the global distributive problems fundamental and unavoidable.

It must be recalled that the Kyoto protocol is not global either. It covers at present not more than 30 percent of global emissions, and much less of the global population — neither the US nor the developing countries participate. William Nordhaus (2006) thinks that the Kyoto agreement is already seriously ill, or even terminal. And the effective part of the EU's emission rights system represents only 8 percent of global emissions.

Management of global resources requires of necessity global instruments. Even if ineffectual if partially implemented at the local or national level, Barnes' idea of a climate trust fund might be a powerful initiative at the global level. What could indeed be effective is an atmosphera.org, a global trust fund with the mandate of managing the atmosphere on behalf of future generations and of investing its revenues in social programs and environmental projects worldwide, according to the equal rights principle.

This type of scheme would attract the developing countries, and also answer to two common objections raised from the rich countries. First, it is suggested that a large share of the incomes accruing to poor countries could end in the pockets of corrupt officials and politicians. Second, it could also be possible that these incomes, even in the absence of corruption, should not benefit the poor — in many countries public expenditures only increase the bias of an already unequal income distribution. A global, independent trust with clear mandate, power and accountability should see to it that the scheme is free from corruption and that its revenues benefit the "carbon-poor."

Let us summarise. The global nature of the climate problem imposes global solutions. The equal rights principle is a natural and rational ingredient of a solution which aims to effectively include all countries. There are two main, economically equivalent instruments, which can also be combined in different proportions. One is to create a global market for greenhouse gas emission rights allocated to countries according to their population. The other is to introduce global emission taxes/fees, whose revenues accrue equally to all. To implement these ideas a new, global institution is needed, whose rules and mechanisms are considered effective and credible by both rich and poor countries. A global climate trust fund could be such an institution. The objective for a new, all encompassing Kyoto should be to arrive to these types of institution, rules and mechanisms. Not only the atmosphere, but also the billions of the world's poor would be grateful for it.

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