Re-conceiving the good life – the key to sustainable globalisation

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Abstract
Resource-intensive, high-carbon, western lifestyles are frequently criticized as unsustainable and deeply unsatisfying. However, these lifestyles are still attractive to the majority of westerners and to a high proportion of the developing world’s middle classes. This paper argues that global warming cannot be tackled by appeals to asceticism or restraint. There can be no solution to climate change until we can develop sustainable conceptions of the good life that we in the west want to live and which others might want to live.

While the ultimate solution to climate change is the development of low carbon lifestyles, it is important that government initiatives, governance arrangements and economic incentives support rather than undermine that search. Like the global financial crisis, the global warming crisis demonstrates what happens when weaknesses in national, corporate and professional governance are exacerbated by weaknesses in global governance. In tackling the latter, we must avoid some of the mistakes now evidenced in the former – including a rethinking of carbon market and carbon tax alternatives.

Introduction
Over the last twenty years, the flow of money, goods, people and ideas across borders has threatened to overwhelm the system of sovereign states. Much activity has moved outside the control of nation states at the same time as nation states have ‘deregulated’ and in so doing have transferred power from those exercising governmental power at the nominal behest of the majority of its citizens to those with greater wealth and/or greater knowledge in markets in which knowledge is typically asymmetric – and in which power is distributed on a very different basis of one dollar one value rather than one vote one value.

It is now recognized that many governance problems have arisen because of globalisation and can only be addressed by global solutions. It must also be recognized that governance problems at the national level contribute to governance problems and the global level and vice versa. This is true of current issues from the melting Greenland glaciers to the ethical and financial meltdown of Wall St. In both cases, there are glaring and mutually reinforcing weaknesses in global governance institutions, national governance institutions, and corporations. In the case of the financial crisis, there have been significant failures of professions and those whose advice is trusted. From the ratings agencies, to corporations, to super funds, to banks, to governments and multilateral agencies, institutions must be redesigned to increase the probability that they will use the power entrusted in them to serve the public interest in the way they claim.

However, if we are going to demand that institutions are to serve our interests and values, it is very important that we are clear to ourselves what our values are and how those values are integrated into our view of the good life and that our actions as citizens, consumers and investors. I will spend most of my time on climate change but will also try to fit in a few words about the spot of financial bother in which our financial geniuses have found themselves – and dragged most of us in with them.†

† Provenance of these ideas
This paper takes up themes that I have been exploring over the last decade. The link between sustainable conceptions of
Carbon and climate change – the recent headline issue for sustainable globalization

Unlike the increasing flows of money, goods, people and ideas across national borders that constitute the heart of globalization, carbon flows across borders independently of human action. It is a headline issue because: (a) all the above-mentioned global flows have exacerbated climate change, (b) solutions involve global agreement on goals the creation of untried institutional mechanisms. If global warming is to be halted this century, total emissions have to be capped and cut and all states will have to participate in securing that outcome.

The fundamental problem – an unsustainable version of the ‘good life’

1. Resource-intensive, high-carbon, western lifestyles are frequently criticized as unsustainable and deeply unsatisfying (with little evidence of increased happiness and increased indicators of unhappiness in depression, works stress and suicides).
2. This has been assisted by the adoption of a bowdlerized version of utilitarianism that its most famous exponents would have derided.
   a. Bentham believed in a form of utilitarianism that maximized
   b. But it did apply to everyone
   c. And it included a very important principle – the principle of diminishing marginal utility. The first loaf of bread makes you happy. The second loaf of bread does not add to your happiness nearly as much as the second … and the third may be positively unhealthy!
   d. Of course, it is hard to measure happiness so many decide to measure dollars (which until derivatives were easy to count). And in so doing they completely ignore the equalizing role of diminishing marginal utility.
3. This leads to a ‘dollarized’ version of the good life that is not ‘good’ and may not be much of a life.
4. However, whether by good marketing or bad habits, these lifestyles are still attractive to the majority of westerners and to a high proportion of the developing world’s middle classes – turning northern profligacy into southern aspiration. Even if confined to the west such lifestyles are unsustainable: their extension to the rest of the world increases the downward spiral to ecological catastrophe.
5. Since the 1970s, there have been many pleas for western nations to desist from unsustainable aspects of their lifestyle and more ascetic lifestyles have been advocated. While some will choose less energy intensive and environmentally damaging versions of the goods and services they desire, self-denial has rarely been widely popular among those who can indulge themselves and the numbers pursuing unsustainable lifestyles has increased over the last 30 years rather than decreased.

the good life and climate change was central to my the opening paper I was invited to give at a World Council of Churches colloquium on Climate Change in Saskatoon in May 2000. Also in that paper were criticisms of cap and trade systems based on arguments about human rights, perverse incentive and the superiority of carbon taxes – as well as the idea that carbon and other taxes should ultimately be returned to individuals as part of a global minimum income. The importance of linking the good life, shareholder values and the practices of corporations dates from my work on ethical and socially responsible investment since 2001. The additional material on global integrity systems (cf ‘national integrity systems’) and especially the global financial integrity system are based on various UNU proposals to the UN since 2005. My first attempt to put all these issues together can be found in the conference discussion paper that Transparency International commissioned me to do for the International Anti Corruption Conference in Athens in November 2008.

2 I use the term ‘developing’ rather than ‘less developed’, ‘low income’ or ‘very low income’ despite what is sometimes seen as a neo-liberal bias in the term. First, the term predates neo-liberalism. Second, and more importantly, I still maintain the view that we need to develop the economies and polities of the world to allow individuals to take part in the good life through the development of their capabilities (see Dr Bill Ransome’s deeply thoughtful piece) and through delivery of material and non-material goods (see Prof Peter Sheehan’s excellent paper to this conference).
6. In summary, the key problem is that the West has invented and proselytized an unsustainable version of the ‘good life’ that other countries seek to emulate. As I put it in 2000, ‘northern profligacy has become southern aspiration.’

7. There can be no solution to climate change until we can develop sustainable conceptions of the good life that we in the west want to live and which others might want to live. A dialogue between east and west might be very instructive in imagining such conceptions of the good life.

8. Fortunately, many of the things that human beings value most do not require huge investments of energy and an unsustainable use of resources – for example: companionship, conviviality, conversation. None of Nussbaum’s list of human values need break the ecological bank: life (not dying prematurely), bodily health, bodily integrity, pleasurable experiences/absence of pain, emotions, practical reason, affiliation, living with concern for other species, play, control over one’s political and material environment.

9. Other alternatives are coercing countries to cap their emissions (not possible even if it were morally acceptable) and paying those countries to cap their emissions (self defeating while unsustainable images of the good life prevail because, one way or another, those being paid to live more sustainable lifestyles will seek the unsustainable ‘good life’).

Concerns about carbon trading schemes

While the ultimate solution to climate change is the development of low carbon lifestyles, it is important that economic incentives support and stimulate that search. The currently favoured approach is to set a cap and then cut total emissions with the trading of emission rights to provide incentives to those who can most efficiently cut their carbon and minimize the cost. This is unsurprisingly popular in states emitting the most carbon because it effectively gives them a property right to emit – something that is acknowledged in the literature (‘issuing permits free of charge (or at low cost) explicitly recognises the property rights which emitters have had in the past.’). Where an activity is shown to be harmful, it is not immediately obvious that we should create property rights to continue the harmful activity and to give the greatest property rights to those who have done the most harm.

1. Those engaging in the harmful activity have been doing so by externalising their costs on others who have suffered and continue to suffer from the harm done.

2. This leads to a rush to create property rights in unsustainable activity – and given to those who have been the worst offenders among nations and within nations. This idea is popular in west and with those who would operate the markets. It is unpopular with non-western countries who would be given less rights. Why would they agree?

3. Giving concessions to those countries or corporations who are already engaged in the unsustainable activity effectively concedes a ‘right’ to engage in unsustainable activities.

4. It also has the perverse effect of encouraging market players to look for the next unsustainable activity in which they can invest to benefit from ‘grand fathered’ rights. If the idea is supported, then it will encourage investors to seek out industries that are engaging in harmful activity and maximize the harmful activity to maximize the property rights they will be given when the next harm is recognized. This approach rewards polluters, exacerbates pollution and creates perverse incentives for those who know about pollution to use that knowledge to the detriment of society.

5. Faith in markets may be misplaced in this case. The relevant commodity (carbon) is not well understood and knowledge will be asymmetric – allowing market players many opportunities for arbitrage and taking advantage of the ignorance of those who need to access the market to continue their businesses. This leads to the possibility that much of the extra cost of doing business will end up in the hands of market players rather than consumers or producers who have to pay higher prices. There is also the possibility that everybody loses. New markets often

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4 a new right that appears in no declarations and in no texts – but which is proclaimed by some westerners
get it wrong. The creators and ‘market makers’ for derivatives were very keen to enter into
carbon trading. While many are wary of entrusting them with the contents of their piggy banks,
it is unlikely that they will be entrusted with the future of the planet.

6. New markets are always prone to fluctuation and profiteering from asymmetric knowledge.

**Revisiting carbon taxes in a new form – the ‘Carbon Added Tax’**

1. The alternative approach involves the taxation of unsustainable activity rather than granting
rights to it. I would suggest a ‘carbon added tax’ (CAT) to operate like a VAT. If it operates like
a VAT, carbon taxes are passed on up the line until paid by the consumer of the relevant goods
and services. The VAT treatment of imports means that those who keep outside the system of
carbon taxes would still face the CAT when the goods are imported into a market within the
system. It also means that the burden is on those countries which consume high carbon goods
and services rather than those who produce them.

2. Revenue could be returned to individuals through cuts in consumption tax (either across the
Board or targeted in areas such as food where the poor pay more) to prevent inflationary impact
while retaining a strong price signal. Indeed, it provides both negative and positive price signals
as low carbon products actually decline in price (though slowly enough to avoid deflation of
low carbon products).

3. In general, we should move from taxing consumption to taxing carbon. This provides room for
huge price signals. Replacing consumption taxes with a carbon tax would massively change the
incentives for reducing green house and other emissions without affecting inflation. It is
extremely unlikely that industries in economies with GST/VAT of 10% would need that much
to drive down carbon usage to acceptable levels. To ensure that such a change is revenue
neutral, the proceeds could go towards the same ends as the GST/VAT reduced. As Carbon
taxes became more effective, the tax take might shrink and VAT could then be gradually raised
without any effect on inflation Where the tax required is more than the relevant GST/VAT, it
can be returned to individual citizens – or to individuals globally through a global minimum
income (see below).

**Distribution problems – leading to a new approach to global taxation**

The problems we are having in competition for land between growing food, growing biofuels and
growing plantation timber for carbon sinks

We have seen all this before – in taking over land for cash crops in developing countries in the late
19th and much of the 20th century and earlier for enclosures. The use of land for more lucrative
pursuits is OK if those who would have otherwise secured food from the relevant land get enough
of the benefits to buy food from other sources. Sometimes the efficiency is merely gained from
producing less value but with less labour (especially plantation timber vs intensive farming). This
is a benefit to the landowner but not to the society – total GDP is reduced.

We must avoid solutions in which unsustainable western lifestyles are preserved by taking over
food growing land that would otherwise feed the world’s poor. Proper carbon taxing will even up
the balance a little in that diets with high quantities of meat will include much more carbon taxes.

However, the ultimate answer is that the carbon tax is returned to individuals. If sustainable carbon
emissions total 2 tonnes of carbon per person, then each individual should receive a payment equal
to the tax on 2 tonnes of carbon each year. These should be in payments to individuals rather than
governments to ensure that they got through to those who need to benefit. It also reflects the fact
that the poorest people in the world are generally in the most corrupt and undemocratic of societies
whose governments are least likely to pass on the benefits of any carbon windfall.

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*Although with the emerging potential for deflation, the inflationary effects might be particularly valuable to keep the
general price level increasing. The proceeds could then be distributed to citizens or residents as a per capita payment.*
Ultimately, I would aim to move to a more ambitious model in which a number of taxes would become global taxes. These are made up of taxes that are increasingly uncollectible at a national level (company tax and death duties) and those that should be imposed at a global level for systemic reasons (carbon taxes, Tobin tax, taxes on resources taken from the sea outside of national economic zones).

These could be collected together and provide a Global Minimum Income for all persons on the planet. This would follow the logic of ‘Basic Income’ and ‘Guaranteed minimum income’ schemes which recognize a right to resources based on citizenship and a duty to pay taxes based on economic activity. The value of the distribution would be limited in the richest countries and totally transforming in the poorer ones.

Financial Globalization – the current headline issue for sustainable globalization

If globalization involves the flow of people, ideas, goods and money, the last has grown most rapidly – indeed well in excess of the flow of goods and investment that it is supposed to support. Developing countries have entrusted their enormous and growing surpluses in western banks and other financial intermediaries. Some (such as East Timor) have been pressed by western run multilaterals to entrust the proceeds of extractive industries in Wall St on the basis that it was less likely to be eroded by corruption.

The amounts entrusted to such intermediaries in the US and elsewhere on the basis that they would be invested on a secure and conservative basis were unprecedented. It now appears that entrusted powers over vast sums of money were abused for personal gain. Many within financial intermediaries have played with that money in ways that maximized their fees while increasing the risks to their investors. The ratings practices were scandalous and incredibly insulting to well run businesses and governments whose risk was far less than 110 percent non-recourse mortgages on inflated values to NINJA borrowers (no income, no job, no assets). The fact that their risk models were based on the probabilities of individual defaults and ignored the possibility of an overall decline in property markets is merely more evidence of incompetence, negligence and ‘arrogance beyond their means’. Once such ratings could be secured, the signing up of mortgagees, the packaging of those loans, their rating and their sale to local citizens and foreigners looks like a well oiled ‘corruption system’. Even though they did not see themselves as corrupt, several parties were maximizing their fees while squandering profits at the expense of those who entrusted them with their funds. The unedifying subsequent sharp shift from greed to blind panic only adds to the contempt that so many have engendered.

This does not mean that banks should not be rescued. The fact that they were poorly run is not the point. If they had been well run, they would not need to be rescued. Rescues are instigated to protect the wider economy, confidence and depositors who were not accepting suspiciously high rates – while seeking to ensure that the owners and managers of such banks remain as exposed as possible to the consequences of their mistakes.

Neither does this mean that all participants acted unethically or illegally. However, if confidence in the international financial system is to be restored in the long term, and if the proceeds of developing country surpluses and western superannuation are to continue to be entrusted with intermediaries for investment in the globalized economy – thereby supporting sustainable globalization rather than undermining it, then, this can only happen if there is a full investigation of what went wrong and options for the establishment of adequate financial integrity systems are debated, selected and implemented as part of the Global Integrity System. Such an investigation will have to include members of developing as well as developed countries and be supported by the work of international researchers, NGOs and international organizations. In this process the Equator...
Principles, the UN Global Compact, the UN Principles of Responsible Investment will need to be reconsidered and implemented.

In reforming the international financial system, we should set the goal of ensuring that those who are entrusted with investing funds for others do not abuse that entrusted power to increase their wealth at the expense of those for whom they invest.

**Recognizing the role of individuals in dealing with these global issues**

While the architecture of sustainable global governance and sustainable globalisation is largely institutional, we should never ignore the individual dimension. We should identify our own actions that can further stated good governance values. We must recognize that we can act at three levels:

- as Citizens/voters;
- as Investors;
- as Consumers.

When we act, we have responsibility for the consequences of our actions. The fact that we are acting as consumers and investors does not excuse us from that responsibility. However, between our actions and the achievement of intended consequences lie a number of institutions:

- As citizens we rely on parties, parliaments and bureaucracies to implement our collective choices.
- As investors, we rely on advisors, trust funds, fund managers and corporations to connect our values with our investments.
- As consumers, we rely on manufacturers, service providers, retailers and advertisers to inform our choices and deliver them.

We empower these institutions by voting, investing and consuming. We must recognize that those institutions may well abuse that power and demand institutional changes to limit the ability of those institutions abusing the power entrusted to them.

We should recognize that action on one front can affect action on other fronts and campaigns should press for action on all three fronts. We should especially seek to harness the ultimate owners of most corporations – superannuants. The latter have been actively discouraged from thinking of themselves as having any interests or values – effectively, and insultingly, required to be economic man.

1. Their interests are long term and not confined to the market return on their shares. They have other economic interests as employees, taxpayers and parents. An action that marginally increases the return on their shares but raises unemployment or requires taxpayer funded clean ups or bailouts is against their overall economic interests. The best entrepreneurs are those who build sustainable businesses. The problem is that the financial intermediaries who handle superannuants’ money are driven by short term incentives.

2. They also have values that go beyond economic interests. They are not only entitled to seek to further these through their investments but are responsible for their choices. Shareholders’ values may vary but this merely means that funds should differentiate themselves on the basis of the values they seek to further.

3. As most superannuation funds aim for diverse investments and align shareholdings with stock market indices, superannuants are becoming ‘universal investors’. Any attempt by businesses to externalize their costs hurts another one of the superannuant’s investments – and often the superannuants themselves. Accordingly, the externalization of costs is not a game that superannuants can afford and neither they nor the funds who invest their money should be willing to play.

4. There is a direct line between ethical and socially responsible investment by individuals, funds adopting and implementing the UN’s Principles of Responsible Investment (PRI) and corporate social responsibility initiatives such as the Global Compact.
Conclusion

In 1961, the East German government erected what they claimed was an anti-capitalist barricade. In 1989, this was dismantled by those whom it was supposed to keep apart. The forces it was intended to contain overwhelmed it. In the aftermath, the victims of Stalinist oppression opted for radical change. Some might have hoped that they would march resolutely towards the forms of social democracy that had proven so successful in their nearest neighbours – Scandinavia, Germany and Austria – and then stop when they had reached a point on the political spectrum with which they felt comfortable and which worked for them. Unfortunately, they went to the opposite spectrum of political economy. They managed to reduce their greenhouse gases – because economic activity was reduced by 50%. Some of this was because of the inherited problems but some of it was because of an unbalanced response which went far too far.

In 1653, Peter Stuyvesant erected an earth and wooden wall to protect the westernmost settlement of a great commercial nation from those they imagined to be barbarians. In 1699, the wall was dismantled by the British who replaced it with a street named after the wall. I am not sure if the Dutch had left some tulip bulbs on either side of the wall as a reminder of capitalism’s first bubble and an inspiration to later bubbles. However, there are a lot of victims who now want to tear down that Wall. As in 1989, they want to take action against the guardians of the system that failed them – with merchant bankers, financial advisors and ratings agencies being about as popular as the Stazi. Radical change is required. However, we do not want it.

There will be a role for markets. We should recognize the dynamic power of markets which allow us to trade what we have for what we would prefer. While this power may be harnessed to serve our interests, untrammelled markets will not do so.

Adam Smith famously said:

“...It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest.”

I might equally say:

It is not the malevolence of the mortgage broker that writes the NINJA loan, not the malevolence of the arms manufacturer that invents the cluster bomb or the polluter who destroys the planet – it is their own self-interest.

Self interest is an important driver but what we would now refer to as the ethical and regulatory environment that determines whether self interest is channelled to put bread on our plantation timber table or cluster bombs in our overheated and flood prone backyard.

Need to make capitalism serve our interests by trying to make it responsive to the real values of the real people who own most of it rather than the distorted version of self interest.

This is the 250th anniversary of the work that Adam Smith regarded as his most important and which provided the essential grounding for the Wealth of Nations. The former is now considered a part of moral philosophy and the latter of economics so that some might say that moral philosophy or ethics is prior to and more important than economics. But Smith would not have said that. He and other contemporise lived before the separation of disciplines and, like Bentham, would have seen little point in separating the modern disciplines of law, ethics, politics and economics whose separate formation post-dated their work and their insights. Governance requires their reintegration and their service to those our institutions are supposed to serve – us.

At the same time, we need to think through our values, integrate those values into our own conception of the good life and then integrate our actions as citizens, consumers and investors so that we may, in fact, live sustainable conceptions of the good life.