

**Common Pool Funds for Common Pool Resources:
Creating a New Global Financial Architecture**
Paul R. Epstein

It is becoming clear that a movement focusing on global issues has emerged as we enter the new century. In Seattle, World Trade Organisation (WTO) talks collapsed from internal unreconcilable divisions and the weight of protests directed at labor, human rights, the environment and secrecy. While grievances coalesce into new coalitions, an extensive structure of roots underlying these branches was unearthed: the perverse incentives favouring transnational corporations and vast inequality in the prices of goods traded. Creating a system that promotes healthy economic development will require creating new "rules," new institutions and funds.

The current international economic "system" does not support the rational use of global common resources -- fisheries, oceans, fresh water and atmosphere. And just when this resource crisis is being compounded by warming-driven weather extremes, growing inequity and cultural homogenisation have sparked challenges to the international economic structure.

Environmental and economic instability has galvanised citizens to demand humane co-ordination of the global economy. A new financial framework is needed to make possible the resolution of apparent conflicts between US labour and labour elsewhere, between "sweatshops" and industrial growth, and between economic growth and environmental and human rights.

There are two major parts to economic systems: finance and production. Finance -- through loans, investments and grants -- sets the directions for industry and agriculture. The financial sector -- banking, insurance, stock market and currency trading -- may be viewed as the "brain" of capitalism (credit, George Soros), while production is the "body".

But international finance is not co-ordinating its policies: "Globalisation" has meant allowing special interests to privatise the parts (fisheries, forests, etc.), without regard for the integrity of the whole. Indeed, the WTO has focused on *disabling* local rules that impede transnational corporation (TNC) interests. Nor does international finance concern itself with sustainability since its mobility allows it the option of using up a resource completely and then shifting investments elsewhere.

In the health arena, as two recent articles in the British journal *Lancet* explain, globalisation means siphoning national budgets in developing countries to establish foreign-owned Health Maintenance Organisations, and preventing nations (e.g., Thailand) from producing inexpensive HIV medicines. The former is reprehensible; the latter is unconscionable.

New guidelines and resources are needed to restore the sovereignty of nations.

At the close of World War II -- after two world wars and global depression -- world leaders convened in Bretton Woods, NH (1944), to craft a framework to stabilise the international economy. Three rules were established: 1) free trade in goods, but 2) control of capital flows, and 3) fixed currency exchange rates. New institutions were established: the World Bank (WB) and the International Monetary Fund (IMF), along with the United Nations.

Soon after, the Marshall Plan and Fund -- and the GI Bill in the US, subsidising housing, education and jobs -- provided the crucial thrusts.

In 1972 the collapse of rules restraining capital flows and betting on currencies unleashed an exponential rise in oil and gold prices. Throughout the 1970s “petrodollars” were pumped into huge development schemes, and inflated interest rates (favouring finance over production) and hyperinflation of currencies in the ‘80s solidified the debt crisis.

IMF-instituted structural adjustment programs (SAPs) were designed to boost export crops to ensure repayment of debts. But belt-tightening stipulations cut nation-state spending on housing, education, health and public transport – the sectors that buttress domestic economies. Dismantling state infrastructures has harmed many nations and has widened income gaps. The discrepancy between the “state of the economy” and the condition of populations has become increasingly evident.

By the early 1990s it became apparent -- even to prominent World Bank economists -- that SAPS were pulling the rug out from under national infrastructures, preventing poverty alleviation *and* competition, and encouraging corruption.

Meanwhile, floating exchange rates facilitated an explosion in currency trading (yen vs. dollars, etc.) from \$18 billion daily in 1972 to over \$1.5 trillion daily in the ‘90s! The rapid movement of what might be called “specudollars” helped set the stage for the 1996/97 collapse of Asian currencies.

A new architecture for global governance could have three elements:

- A. *Rules:* New rules are needed to constrain capital flows to prevent the volatile, destabilising, speculative movement of capital *and* to direct funds towards healthy development.

Unpayable debts must be forgiven. The forgiving of debt would be a compensation for past inequities of terms of trade and extraction of wealth. Projects aimed at forest preservation, for example, cannot keep

pace with debt-driven timber extraction and land clearing for monocultures (plus the desperate need for fuel).

But the debt would be reconstituted rapidly unless the conditions that gave rise to it are themselves changed.

The most challenging issue is, therefore, the terms of trade: the differences between the prices poor nations receive for their exports (e.g., food) vs. the prices they pay for imports (e.g., tractors). Since the 1960s TOTs have steadily widened.

Equalising TOTs is most challenging because it means distributing global wealth more equitably. TOTs must become more balanced, even from a Western, self-enlightened perspective, to maintain purchasing power and global markets. Equity is prerequisite for trade that is free and fair, and for addressing international divisions among workers.

B. *Institutions*: The World Bank (WB) is a bank, not a development agency.

One possible candidate for administering global governance is the Global Environmental Facility (GEF) -- a union of the UN Development Program, the UN Environmental Program and the WB. GEF gives grants. Recently it has increased Non-Governmental Organisation (NGO) participation, albeit inadequate; and its funding is grossly insufficient.

C. *Incentives and Funds*: Perverse subsidies – those encouraging the extraction, mining, refining and combustion of coal and oil -- must be eliminated. Subsidies and tax incentives must be switched to stimulate producers and consumers of clean energy and energy-efficient technologies. New enterprises for fuel cells, solar, etc., can generate jobs and trade – a “win-win” for the economy and the environment.

International agreements – such as the Kyoto Climate and Biodiversity Conventions -- are hampered by the absence of financial resources. Universal acceptance of the 1987 Montreal Protocol to phase out stratospheric ozone-depleting chemicals was achieved when funds were allocated to transfer technology to poor nations. For wealthy and poor nations, funds can help “jump-start” clean, infant industries.

Funds are also needed to support what the private sector will not, such as watershed protection. Compensation will be needed for nations sharing their genetic resources for medicines and crops. And (credit Harvard economist Jeffrey Sachs), funds are needed to develop vaccines and drugs for diseases like HIV/AIDS and malaria, for which there is no current lucrative market in the most afflicted nations.

And funds are needed for reparations for climate and extreme weather-driven devastation in nations such as Honduras, Venezuela and Mozambique.

Developed nations have also begun to experience more severe and unpredictable weather patterns. Hurricane Floyd in North Carolina, September 1999, afforded an abrupt and devastating end to an extended summer drought. Prolonged droughts are also afflicting parts of Europe, while growing temperature contrasts between cold poles and warm tropics generate windstorms, like the twin winds that raced across the Atlantic over Christmas 1999, destroying France's forests. Extreme weather events are having long-lasting ecological and economic impacts on a growing cohort of nations, affecting infrastructure, trade, travel and tourism.

Potential sources for such a World Development Fund include taxes on carbon, airline traffic and Internet "cyberdollars." A tax on currency transactions -- the Tobin Tax (after the Noble-prize winning Yale economist, James Tobin) -- delivers a "two-fer:" it would help stabilise finances *and* generate significant funds. A quarter of a penny levy on each of the \$1.5 trillion traded daily -- far less than one pays a broker to buy stocks -- would not discourage long term investments and would yield over \$100 billion annually!

Groups converged in Seattle sharing multiple grievances against the current corporate agenda. Remarkably, 1448 NGOs signed a common statement on equity, poverty and the environmental impacts of the non-sustainable pattern of production and consumption. Along side US labour's understandable focus on American jobs, the closing of West Coast ports by Longshoremen in sympathy with the demonstrators sent shivers across to Washington. Now global action networks are springing up many cities to pursue these issues. A third force of NGOs and citizen groups has emerged, counterbalancing nation-states and TNCs, raising the question of not whether to develop, but *how?*

Worldviews can shift rapidly. At the World economic Forum held in Davos, Switzerland in January 2000, the CEOs from over 1000 corporations and heads from most of the world's governments voted overwhelming that climate change posed the greatest threat to all nations.

Equity and environmental preservation must be guiding principles. Constructing a new economic order, with a resilient regulatory, institutional and financial framework, will require a "Bretton Woods II" summit -- this time with government, corporate, labour and NGO participation. Creating a new architecture for governance can provide the scaffolding to sustain healthy, ecologically sound and equitable global systems in the century before us.

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Paul R. Epstein, M.D., M.P.H. is Associate Director, Center for Health and the Global Environment, Harvard Medical School. Richard Levins, Ph.D., Harvard School of Public Health, provided helpful advice.

ARCHITECTURE FOR GOVERNANCE

