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Gordon Brown is right: rich western banks should pay for the developing world to go green

A global tax on banking transactions would curb speculation and the proceeds could break the deadlock on Copenhagen climate talks

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The response was predictable. No sooner had Gordon Brown expressed enthusiasm for a global transaction tax than the backlash began. Not something we like, said the Americans. We want lower not higher taxes, said the Canadians. Too hard to enforce, said the International Monetary Fund.

This is the last gasp of an ancien régime. The banks in 2009 are the Bourbons in 1789, the Romanovs in 1917. They existed in a bubble of privilege and took the public for a ride. They caused a financial crisis and triggered the biggest economic crash since the 1930s. They now expect the state to clear up the financial mess caused by this greed and stupidity through public spending cuts and higher taxes.

As the prime minister noted in St Andrews on Saturday, this is not on. "There must be a better economic and social contract between financial institutions and the public, based on trust and just distribution of risks and rewards," Brown said. Amen to that. He is 100% right and he deserves support.

Let's be clear. A global financial transaction tax was only one of four options floated by the prime minister, and there are formidable practical problems. Wall Street and the City will lobby hard against it. It will only work if all the major financial centres cooperate, and securing an agreement will be tough. Brown knew that he would get plenty of flak for floating his ideas at the G20 finance ministers' meeting, but is up for the fight.

Finance ministries were initially dismissive about debt relief but were eventually won over. Angela Merkel and Nicolas Sarkozy have both backed the idea of a transaction tax; Brown's intervention means there is now a powerful bloc challenging the status quo.

Despite what the IMF says, the main obstacles to a tax first proposed by the US economist James Tobin in the 1970s are political rather than technical. All financial trades are electronically recorded; it would be simple for them to be monitored by tax authorities.

Equally, a transaction tax may not reduce business volumes. Adair Turner, the chairman of the Financial Services Authority, shot that fox in summer when he branded some City activities as "socially useless".

The big hurdle for a transaction tax is, and always has been, the need to get universal backing. That's shorthand for winning the Americans over.

Sniffy

Tim Geithner, the US treasury secretary, was sniffy about Brown's idea at the weekend, but Downing Street is encouraged by the Obama administration's willingness to cooperate internationally in a clampdown on tax havens.
The political argument in favour of reform is strong. Firstly, policymakers want to put in place measures to reduce the risks of future financial crises. Secondly, financial institutions provide an easy source of revenue at a time when governments are counting

every penny.

A study by the Austrian government showed that a 0.05% tax imposed on UK financial trades would raise about £100bn a year, even assuming an improbable two-thirds drop in transactions. That would wipe out the structural part of the UK's budget deficit at a stroke, avoiding the need for painful and unpopular spending cuts.

Brown, though, wants only half the proceeds from a transaction tax spent at home. He would like to see governments from developed nations allocate the other half to financing development and helping poor countries cope with global warming. That's a good strategy, since it would both assuage public anger at the banks and ensure that a global tax was used to do global good.

Poor countries did not cause the crisis yet have been badly hurt by it. They need money to develop low-carbon growth strategies. Without a willingness by the west to bankroll greener economic strategies in the developing world there will be no climate change deal. The portents are bad for next month's climate change summit in Copenhagen. Indeed, the negotiations are starting to echo the global trade liberalisation talks, which began in Doha eight years ago this week and are still going nowhere.

Rich countries have found that the bigger developing nations are no longer prepared to be pushed around. In all previous rounds, the European Union and the United States have imposed a private deal on the rest of the WTO membership: the big change during the Doha talks has been the no-nonsense approach of Brazil, India and China. They have refused to roll over in the face of bullying tactics from Brussels and Washington, demanding that the developed world provide compensation to poor countries for the biased outcomes of previous rounds.

The stakes are much higher in Copenhagen. If the scientists are right, then the international community cannot afford a decade of delay in concluding a deal on climate change. Developing countries say – with some justification – that the west has been responsible for the lion's share of greenhouse gases and that rich countries should therefore shoulder most of the burden when it comes to cutting emissions. India has more people without electricity than live in the EU.

Rich countries – particularly the US – argue that there can be no deal unless the larger developing countries participate. They, too, have a point. While the stock of greenhouse gases is certainly the responsibility of the developed world, the flow of new emissions will come from the fast-growing emerging countries, where demands for energy are increasing exponentially. Four-fifths of the growth in emissions between now and 2030 will come from those developing nations.

Impasse

The way for the impasse to be unblocked is for the west to take the lead. One way it could do that is sketched out in a new paper: Avoiding Dangerous Climate Change, Why Financing for Technology Transfer Matters, by Arunabha Ghosh and Kevin Watkins for the Global Economic Governance Programme at University College, Oxford. Ghosh and Watkins say that we need a big and immediate programme of technology transfer to provide India and China with clean coal plants.

The argument is simple: coal is the most polluting fossil fuel and the most rapidly growing source of greenhouse gas emissions. The reason it is the most rapidly growing source of emissions is that it is the primary source of energy in India and China. While both countries have been expanding their sources of renewable energy, they are currently far too small to allow Beijing and New Delhi to hit their targets for poverty reduction. The immediate choice is not between coal and renewables but between dirty coal and cleaner coal.

Ghosh and Watkins argue that the best-performing coal-fired power plants in rich countries achieve thermal efficiency levels that are 50% higher than the average plant operating in India and China. Closing that efficiency gap would make it possible to produce the same amount of energy with far lower carbon dioxide emissions.

This, of course, would come at a substantial price. Clean coal technology is expensive, which is why there is very little of it, even in the west. The paper estimates that improving thermal efficiency levels to the best available would cost between $5.2bn and $8.4bn (£3.1bn and £5.1bn) a year for India alone. The west needs to learn the lessons of Doha and use transfers of money and know-how to kickstart the Copenhagen process. That's where a transaction tax – the transfer of resources from the socially useless to the socially disadvantaged – comes in. Governments should grab it with both hands.