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Innovative Sources to Meet A Global Challenge

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1.1. INTRODUCTION

At the Millennium Summit in September 2000, the states of the UN affirmed their continued commitment to sustained development and the eradication of poverty. They set out a vision of a global partnership for development, directed at the achievement of specific targets. Specifically, the world's leaders signed up to the Millennium Development Goals (MDGs) summarized in Box 1.1. The concrete goals include the halving by 2015 of the proportion of people living in extreme poverty, the proportion hungry, and the proportion lacking access to safe drinking water. The goals include the achievement of universal primary education and gender equality in education, the achievement by 2015 of a three-fourths decline in maternal mortality and a two-thirds decline in mortality among children under five. They include halting and reversing the spread of HIV/AIDS and providing special assistance to AIDS orphans, while improving the lives of 100 million slum dwellers.

Since the declaration of the MDGs, a number of attempts have been made to estimate the financing requirements. In the case of Africa, achieving the MDGs implies an increase in the *per capita* consumption of over half of its population in order to reach a minimum of US$1 per day. To achieve that level of consumption, it is reckoned that African and other low-income countries must, on the average, grow at 8 per cent per annum for the period. UNCTAD (United Nations Conference on Trade and Development) (2000) judged it unlikely that the poor nations could find the resources to finance such growth from the traditional sources, that is, domestic savings (both private and public) and foreign savings (existing levels of official development assistance (ODA) and private capital flows). This made it essential to identify sources of additional financing, while boosting the capacity to generate further resources from the traditional sources and improving the effectiveness with which financing is employed.

At a global level, taking all the above considerations into account, the Report of the Panel chaired by President Zedillo (UN 2001) estimated conservatively that an additional US$50 billion would be required annually to achieve the international development goals. The Panel argued that there was a strong case for international financing of global public goods, and identified the goods that fell in that category as

Box 1.1. *Summary of MDGs*

Goal 1 Eradicate extreme poverty and hunger	• Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day • Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Goal 2 Achieve universal primary education	• Ensure that by 2015 all children will be able to complete a full course of primary schooling
Goal 3 Promote gender equality and empower women	• Eliminate gender disparity in all levels of education by 2015
Goal 4 Reduce child mortality	• Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate
Goal 5 Improve maternal health	• Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
Goal 6 Combat HIV/AIDS, malaria and other diseases	• Have halted by 2015 and begun to reverse the spread of HIV/AIDS • Have halted by 2015 and begun to reverse the spread of malaria and other major diseases
Goal 7 Ensure environmental sustainability	• Integrate principles of sustainable development into country policies and reverse the loss of environmental resources • Halve, by 2015, the proportion of people without sustainable access to safe drinking water • Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers
Goal 8 Develop a global partnership for development	• Develop the world trading and financial system • Address the special needs of the least developed and landlocked and small island countries • Deal comprehensively with the debt problems of developing countries

peacekeeping; the prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of chlorofluorocarbon emissions, the limitation of carbon emissions, and the preservation of biodiversity. Thus, in addition to the financing needs of individual poor nations, there is also the need to finance global

public goods in achieving those goals. The provision of global public goods is covered in depth by Kaul *et al.* (1999) and Kaul *et al.* (2003). The UK government (HM Treasury and Department for International Development 2003: para 1.11) estimated that to achieve primary schooling for all it needs some US$10 billion more each year; that to reduce infant and maternal mortality requires an extra US$12 billion a year, and that halving world poverty requires an investment of up to US$20 billion a year.

All such figures are estimates, and involve matters of judgement. More detailed calculations are being made, disaggregated by individual countries. But it seems reasonable for present purposes to take a figure of additional US$50 billion as being required annually to achieve the international development goals. This is the 'ballpark' figure used in what follows. The aim of the analysis that follows is to investigate ways in which such additional resources can be financed. Our focus is on flows of resources from high-income to developing countries. In so concentrating, we are not denying the importance of resources channelled into development by developing countries themselves; nor are we seeking to under-play the potentially significant contribution of middle-income countries to development funding.

The first major delimitation of our field is therefore that our spotlight is on the *role of rich countries*. The second delimitation is that our primary concern is with the funding side, not with the spending side. As is discussed below, the two cannot be fully separated. Use of resources may affect their availability. The two sides may be interdependent in that more effective use of funds may stimulate additional supply. But our ultimate objective in this book is to analyse possible *sources of funds*.

1.1.1. *Official Development Assistance*

An important vehicle for financing development is ODA. The need for an additional US$50 billion per year must be seen against the current level of ODA, which was US$57 billion in 2002. Of this total, a half was provided by the European Union and its members, and a quarter was provided by the United States. As is well known, ODA stagnated in the 1990s. As a proportion of the gross national income of donor countries, ODA has fallen from 0.33 per cent in the mid-1980s to 0.23 per cent in 2002 (figures published by the OECD—Organization for Economic Cooperation and Development—Development Assistance Committee (DAC) for net official development assistance from DAC countries to developing countries and multilateral organizations). Few countries reach the UN target of 0.7 per cent of GNP for official assistance.

The Zedillo Report for the UN concluded, 'the inescapable bottom line is that much more funding is needed for official development assistance' (UN 2001: 10). 'Meeting the International Development Goals alone would require almost double the current ODA total of more than US$50 billion per year' (UN 2001: 16). At the Monterrey Conference on Financing for Development in March 2002, donor countries recognized that they needed to set more ambitious targets for ODA. The EU prior to Monterrey had committed itself to raising its ODA to 0.39 per cent of gross national income, from the then figure of 0.33 per cent. Three countries have given firm dates to reach the UN 0.7 per cent target: Belgium, France and Ireland. The US government announced

that it was increasing its core development assistance by US$5 billion annually, these increased funds being placed in a 'new millennium challenge account' (MCA). The new account is distributed to developing countries showing a strong commitment to 'good governance, health and education, and sound economic policies'. (The MCA is discussed in Chapter 6.)

Viewed in relation to previous aid achievements and aspirations, the US$50 billion increase seems quite feasible. As noted by the World Bank, 'a return by donors to their early-1990s average aid ratio of 0.33 per cent of GNP would provide an extra US$20 billion' (2001: 89). If the average could be raised to 0.5 per cent, then the US$50 billion additional ODA would have been realized. The search for alternative sources would become redundant. The ballpark target is less ambitious than asking all G7 countries to reach the UN target of 0.7 per cent of GNP for official assistance. Nor is an increase of ODA by existing donors the only route by which ODA could be increased. The world distribution of income is changing. At present the DAC countries of the OECD account for over 95 per cent of worldwide ODA disbursements, but the future funding of development should take account of the growth of middle-income countries, which can be expected to come into the equation.

The funding of the MDGs could be achieved solely by increasing ODA. At the same time, it would require a step change from the present, going considerably beyond what has so far been promised. Increasing public spending on development assistance is not an easy political option. The widening of the circle of aid donors is going to take time. Time is, however, of the essence. For this reason alone, it is necessary to consider new sources.

1.2. NEW DEVELOPMENT FINANCE: INNOVATIVE SOURCES

The gap between current ODA and the amounts required to meet the MDGs is a major reason for looking at alternative sources of development funding. These are the subject of this book. In the chapters that follow, we examine a number of ways in which new funding can be generated. The purpose of the project is not to *devise* new schemes of funding, of which there is already a bewildering variety. (Although some novel ideas, such as the global premium bond, have emerged as part of our work.) Rather our main aim is to consider some of the best known, examining their design and implications.

Specifically, we are considering (see Box 1.2):

- Global environmental taxes (carbon-use tax);
- Tax on currency flows ('Tobin tax');
- Creation of new Special Drawing Rights (SDRs);
- International Finance Facility (IFF);
- Increased private donations for development;
- Global lottery and global premium bond;
- Increased remittances from emigrants.

Box 1.2. *Innovative sources of development funding considered*

Source	
Global environmental taxes	Tax on goods generating environmental externalities, with specific reference to a tax on use of hydrocarbon fuels according to their carbon content. See Pearce (1991), Poterba (1991), and Cooper (1998).
Currency transactions tax ('Tobin tax')	Tax on foreign currency transactions, collected on a national or a market basis, covering a range of transactions to be defined (spot, forward, future, swaps, and other derivatives). See Haq *et al.* (1996), Spahn (1996), Mendez (1997), Patomäki and Denys (2002).
Creation of new Special Drawing Rights (SDRs)	Creation of SDRs for development purposes, with donor countries making their SDR allocation available to fund development. See Soros (2002).
International Finance Facility (IFF)	Long-term, but conditional, funding guaranteed to the poorest countries by the donor countries. Long-term pledges of a flow of annual payments to the IFF would leverage additional money from the international capital markets. See HM Treasury and Department for International Development (2003).
Increased private donations for development	Charitable donations by private individuals and firms. Measures to encourage private funding of development: tax incentives, global funds, corporate giving, and the Internet.
Global lottery or global premium bond	Global lottery operated through national state-operated and state-licensed lotteries, with proceeds shared between national participants and an independent foundation established in conjunction with UN. See Ahde *et al.* (2002). Global premium bond, parallel to national bonds with lottery prizes.
Increased remittances from emigrants	Logistics (reducing cost of remittances), financial institutions (encouraging repatriation) and citizenship rather than residence basis for taxation. See Bhagwati and Hamada (1982), Mirrlees (1982), Bhagwati and Wilson (1989), and Solimano (2001).

A number of these sources have already been extensively discussed in the literature, and we owe a considerable debt to earlier writing. Citations are given in Box 1.2, but we should make specific reference here to the paper prepared by Clunies-Ross (1999) for the Preparatory Committee for the Special Session of the General Assembly in the Year 2000, to the Technical Note prepared by the Department of Economic and Social

Affairs (UN 2002) for the Monterrey Conference, and to the paper prepared for the ILO Commission on the Social Dimensions of Globalization by Clunies-Ross (2003).

It will be evident that our coverage is far from exhaustive. There are a number of other global taxes that have been advanced. These include a 'brain drain' tax, an international air transport tax, taxation of ocean fishing, taxation of arms exports, a 'bit tax', and a luxury goods tax. Each of these warrants examination. We are not arguing that the global taxes investigated here are superior to those not covered. Rather we have taken two of the most widely discussed—the Tobin tax and environmental taxes—as exemplars of the potential for global taxation. If we conclude that they can serve the purpose of raising the necessary US$50 billion, this does not mean that these two taxbases should be adopted in preference to others. Alternatives certainly need to be explored. And if we conclude that the two taxes cannot, singly or jointly, serve the purpose, then the other taxes will certainly have to come into play. In this sense, the project is part of an evolving debate.

The innovative sources considered in this book are not confined to taxation. Two of the proposals are close to ODA. The proposal for a new round of SDRs involves the high-income countries in making these available for development purposes. The UK government proposal for an IFF in effect involves a pre-commitment of future ODA in a way that allows leveraging on the capital market. The remaining three schemes involve a degree of voluntary choice by individuals. The choices range from a voluntary transfer, as where people give their small change to UNICEF or make regular payments to Oxfam, to buying tickets in a global lottery, where the transfer of profits to development purposes is only a subsidiary motive. It includes proposals to increase the remittances sent home by workers abroad, which, if channelled into development purposes, can increase the flow of resources available for development. Again, however, it should be stressed that the coverage of non-fiscal measures is not exhaustive. We do not, for example, cover measures to raise capital funds in developed countries or measures to leverage the funds arising from trade.

1.2.1. *Classification of Proposals*

The seven proposals may be classified in different ways. They differ in the extent to which they represent a *radical departure*. The encouragement of private donations, or of emigrants' remittances, may lead to significant changes in scale, but the activities are not new. There would be no major changes in the rules of the game. More radical is the special SDR allocation by the IMF, which is novel to the extent that donor countries would make their share available for development purposes. The IFF works through ODA but would involve a new international treaty. In organizational terms, it would be a significant change; and the extent of pre-commitment would be unprecedented. Both of these proposals represent new uses of existing instruments. The most radical are the global taxes and the global lottery/premium bond. These would be fundamental departures.

The proposals can be classified according to the *lead actors*. The SDR allocation has the IMF at centre stage, with national governments having to ratify the IMF proposals.

The introduction of global taxes requires national governments to agree to act multilaterally, via a new or existing international organization. This may require universal agreement, or may only require a subset of major countries to agree. In Chapter 2, we explore some of the possibilities opened up by allowing for 'flexible geometry', where countries may or may not participate. The key actors may be national organizations. The global lottery requires the collaboration of national lotteries. The key actors may be individuals. Increased private donations and remittances will only happen if individuals (or enterprises) decide to increase their contributions to development.

Although the use of funds is not our primary focus, the *intermediation mechanism* is a valuable way of classifying the different proposals. In some cases, the source and use are closely aligned. The destination of increased remittances is largely under the control of the individual making the transfer. A worker in California sending money to India may decide to finance her parents' consumption or to fund the construction of a village school. Charitable contributions by the citizens of rich countries are likely to flow via non-governmental organizations (NGOs), allowing the individuals to decide on their relative preferences for disaster relief or water development or agricultural improvement or medical care. In these cases, it is likely that the amount given will depend on the choice of uses. A good example has been debt for nature swaps, where environmental NGOs like the Worldwide Fund for Nature have cancelled developing-country debt in exchange for agreed conservation projects. Donors will doubtless appreciate that funds are fungible, and recipients may offer commitment devices that increase confidence that the funds are indeed ring-fenced. The governmental sources, on the other hand, are likely to disburse funds through existing bilateral or multilateral delivery channels. These may tie aid to particular uses or to the adoption of particular policies. Much of the literature is sceptical about conditionality (e.g., see Kanbur 2000), but this does not mean that conditionality cannot affect the willingness of donors to make transfers. Here it is useful to separate the *perceived* effectiveness and the *actual* effectiveness of the funds. The actual impact of a transfer may differ from that intended because of misadministration or because funds are fungible, but as long as it remains credible that there is a link between the transfer and the stated purpose, then donors may continue to provide funding.

1.3. ORIGINS OF THE PROPOSALS

In this book, we consider the range of innovative proposals described above. We seek to evaluate them according to a variety of criteria, and these criteria are explained below. First, however, it is important to consider the political origins of the proposals. Why are alternatives being sought to ODA? What is the basis of support for different proposals? What is the political context? The proposals considered in this book were not developed in a laboratory; they emerged from a political debate about global policy. They are a product of summit meetings and of street demonstrations. Understanding their origins and political context helps us in turn understand the form of the proposals and their likely impact. It helps us predict their chance of being put into effect.

If we start with global environmental taxes, then these have been championed on the grounds that they yield a 'double dividend'. Such an argument has been made at the national level for corrective taxes on environmental external diseconomies (the damage done to the environment). A tax on the consumption of goods, such as hydrocarbon fuels, which harm the environment has a positive allocational effect, switching spending away from polluting goods towards those causing less or no environmental damage. In contrast to the usual case with taxes, such switching behaviour is desirable. So we have *both* the revenue *and* the environmental gain. This is discussed further in Chapters 2 and 3, but for the present the important point is that the tax proposal is designed with *two* purposes in mind. Revenue is only one objective. Indeed, if we succeed through the Kyoto Agreement and other means in reducing the use of polluting fuels, then the resources available for development will be reduced.

The Tobin tax is another clear example of such a double dividend argument. Indeed, the second purpose historically came first. James Tobin first put forward the idea for a currency transactions tax to enhance the efficacy of macroeconomic policy. The subtitle of the book on *The Tobin Tax*, edited by Haq *et al.* (1996) was 'Coping with Financial Volatility'. The potential of the currency transactions tax as a generator of revenue was suggested 'as a by-product of the proposed tax, not as its principal purpose' (Tobin 1996: x). This ancestry explains the differences in rates proposed by different authors. As is made clear in Chapter 4, a rate of tax of 1 or 2 basis points may be considered too little sand to restrain the wheels of international finance but may generate revenue sufficient to make a significant difference to development funding.

Ideas and policies have their time. Tobin (1996) reflected somewhat ruefully on the fact that his 1978 proposal 'did not make much of a ripple. In fact, one might say that it sank like a rock' (1996: x). A quarter of a century later, it features on many political agendas. In considering the different proposals here, we have to bear in mind their timing and dynamics. The adoption of the MDGs represents a moral commitment from which governments will find it hard to withdraw. The poverty target is not a line in the sand that will be gone with the next tide. This in turn means that the search for revenue has acquired greater salience. Governments may reject particular proposals. They may block multilateral action. But they cannot totally evade the question of alternatives. As 2015 approaches, pressure will increase for results to be registered.

Just as policy goals have a degree of durability, so too policies themselves have a high degree of persistence. This applies particularly to those reached after lengthy inter-country negotiation, as is witnessed by the experience of the European Union. The introduction of a global tax would not be easily reversed, if only because some of the revenue would be necessary to finance the collection machinery. A global lottery might be dismantled, but this would be a significant political reverse. In the case of the IFF, there will be a succession of funding rounds, but the key feature of the proposal is to pre-commit future flows of assistance. Future governments will not be able to go back on the promises made today.

Proposals for new sources also find their origins in a search for alternatives to ODA. Here it is helpful to distinguish three types of motive for seeking an alternative to

increased ODA. The first is to reduce government spending. Many OECD governments are under pressure to reduce government deficits. In the case of the euro zone countries, these pressures are institutionalized in the form of the Stability and Growth Pact. The reactions of countries in this position will depend on the form of these constraints. For example, the attractiveness of the IFF may depend on how the future commitments appear in the government budget. The second concern is with the level of taxation, which would need to rise to finance increased ODA. In this case, the alternatives may not offer a solution. A globally administered Tobin tax may not enter the government budget of a particular country, but it may contribute to the perceived burden of doing business in that country. The profitability of London or Frankfurt as financial centres, for example, might be reduced. Third, governments may be concerned with 'donor fatigue' among their electorate. This would inhibit government participation in the devising of new sources, as well as discouraging increased ODA. Given the possible importance of such 'fatigue', it is significant that the OECD study by McDonnell *et al.* (2003) reports that 'public support in OECD DAC-member countries for helping poor countries has remained consistently high for almost two decades: there is no aid fatigue' (2003: summary). They caution that concern remains about effectiveness, and that public understanding of poverty and development issues remains low. This is a further role for the present book: to contribute to public debate.

1.4. POLITICAL ECONOMY

This book is largely about the economics of new sources of finance for development, but we need also to consider the political economy of new sources. The political economy is important for at least three reasons. The first is that, as we have just seen, politics influences the shape of the proposals. In the next chapter, we ask a number of questions about the design of the proposals, and the answers reflect the political context. Are the proceeds of a Tobin tax, for example, to be seen as a net addition to the flow of resources or as an alternative to ODA? What is the fiscal architecture: would global taxation be collected by national governments? The second reason for examining the political economy is that it affects the economic consequences of the new sources. The reaction of individuals and businesses to global taxes is influenced by the degree to which the taxpayers accept the purposes for which the taxes are levied. Avoidance and evasion are higher where the tax is regarded as unjustified. In a global context, the economic impact of taxes and other measures depends on the actions of national governments. The third reason is that the feasibility of new sources of development finance is ultimately a political issue. Political acceptability should not be a consideration that influences our economic analysis of given proposals, but it may influence the choice of proposals to study.

The behaviour of the state, and its interactions with citizens, has long been an important part of the subject matter of public economics. Analysis of public policy has to take account of the process by which policy is made. We are, for example, starting from a position where donor countries make significant transfers via ODA and where the citizens of those countries make private donations. The co-existence

of public and private transfers means that either the government is not providing aid of the quantity and/or type that its electorate prefers or that there are differences of views among voters. Citizens cannot spend less than their government chooses but they can add private transfers to official aid. How, in such a context, can we interpret the impact of the adoption of the MDGs? Have donor governments moved closer to the level of ODA that their voters preferred? In that case, we might expect the expansion of public transfers to be partially offset by a scaling back of private donations. Have governments sought to bring about a shift in public opinion in favour of increased support for development? In this case, we may even see an increased flow of private donations. In the same way, we can ask how the innovative financing proposals would enter into this equation. Are these new ideas a means to reduce the perceived costs of development finance? Are the new institutions a vehicle for shifting national political balances?

In evidence to the World Commission on the Social Dimensions of Globalization, Clunies-Ross (2003) suggests that there are four factors that may reduce the political cost of development funding. The first is where the revenue sources are *not highly visible*. The global lottery may be an example, where participants are largely focused on the possibility of winning. The second is the time required for *legislation and negotiation*. Piloting a bill for a global tax through parliament may have a high political cost, whereas measures to encourage private donations can be achieved without new laws. The third is described by Clunies-Ross as the '*two birds*' *test:* 'the collection of revenue is itself linked to the achievement of some widely desired end, such as a recognized global public good, so that two birds can be killed with one stone' (2003: 5). Finally, from a national perspective, the cost is reduced when the effort is worldwide, and there are *no freeriders*. Thus it may be feasible for the European Union, for example, to introduce a currency transactions tax without the participation of the United States, but this may run into political objections. Voters in the European Union may object to the Tobin tax not being levied in the country of its inventor.

It should be emphasized that these considerations are positive statements about political feasibility, not judgements about intrinsic desirability. Indeed, their desirability can be questioned. Low visibility is not a property that would commend itself in an open civil society. Legislation is a proper activity of democratic governments. A country's policymakers should form their own judgements independently. There is a strong normative element to political economy. Moreover, extension to a global stage raises new normative issues. As is increasingly evident from public debate, there is questioning of the status of international organizations that are only indirectly accountable. If, as we consider in this book, global taxes are to be introduced, then how are the taxpayers to be represented? If tax revenue accrues to the UN or to international agencies, there will be heightened pressure for democratic accountability. Falk (2002) has considered how the UN could develop a people's assembly. The political structure may therefore itself be influenced by the introduction of new sources of development finance. Just as at a national level, political structures may evolve in response to fiscal developments.

For these reasons, we do not allow considerations of political feasibility to dictate the scope of our analysis of innovative sources. We cannot ignore the political context

but one of the key roles of economic analysis is to spell out the menu of options. If a politician asks which sandwiches are available, we should not leave the vegetarian option off the list simply because we know that he comes from a cattle ranching state. As put by Boadway, it is 'inconsistent to rule out on a priori grounds options that are normatively superior simply on the basis of a perception that the policy process itself will choose not to adopt them' (2002: 55). This does not mean that our analysis of the consequences of a particular policy option should ignore the political context, for the reasons given at the start of this section, but that we should not give it primacy.

Statements about political feasibility are, of course, predicated on a view about the working of the political process. Consider, for instance, the proposition that the double dividend argument strengthens the case for certain global taxes: the 'two birds' test. This argument is related to the classic model of 'logrolling' where two politicians agree to support each other's pet projects. However, the logrolling model assumes a particular distribution of benefits and losses from the projects, the former being concentrated and the latter diffuse (Drazen 2000: 330). But the reverse may be true: the costs may be largely borne by a small interest group, and the benefits widely dispersed. To be more concrete, opening up two fronts also invites attack from both directions, particularly if the two objectives require taxes at very different levels. In several of the proposals considered here, the tax required for allocational reasons is likely to be considerably higher than that needed to add significantly to development funding. The Tobin tax can make a major contribution to raising revenue at a much lower rate than that suggested as needed to stabilize exchange rates. (Taking this argument to the limit, we may note that a carbon tax that reduced emissions to zero would be an environmental success but a revenue failure.) The double dividend case risks attracting the hostility of opponents of the exchange stabilizing level of taxation, who would not necessarily oppose the much lower rate envisaged here. What is required is an analysis of the coalitions likely to form in support or opposition of different proposals.

In what follows, our primary focus is on the economic impact of the different proposals and on evaluation according to a set of economic criteria described in the next section. But we have to take account of the political context, and recognize that our analysis is itself part of the political process.

1.5. CRITERIA FOR EVALUATION

The different proposals are here evaluated, in broad terms, according to the total, and the distribution, of benefits and costs to the citizens of the world. Our analysis is an application of global public economics (Chapter 10). The benefit is seen principally in terms of securing funds for development, and the first question is whether the innovative sources, singly or in conjunction, can raise in a guaranteed way the annual flow of US$50 billion judged necessary to achieve the MDGs by 2015. How far is it feasible to ensure a stable flow of substantial additional revenue from the proposed source?

'Funds for development' in turn raises the question of the relation between dollars collected and development achieved. The meaning of 'development' is one of considerable subtlety, to which we cannot do justice here. The aim of the increased funding is to

ensure a *lasting* rise in living standards *broadly interpreted*. 'Broadly interpreted' is very much the spirit of the MDGs. The halving of extreme poverty is linked with improved education and health, the empowerment of women, and environmental sustainability. 'Lasting' means that the targets are to be reached in 2015 and then sustained. The emphasis is on long-term investment to raise living standards. This means that we have to ask how the use of funds differs across the different sources. Are private donations more or less likely to contribute to investment than ODA? How far do emigrants' remittances finance consumption rather than investment? Of course, current consumption is of value. In that case, however, a continuing transfer is necessary.

Our primary focus is on the cost side, in that we are concerned with the economic impact of the new sources and with the distribution of the burden. The impact may not be immediately obvious. A new global tax will affect economic activity by households and by enterprises. The reactions of those taxed may allow them to shift the burden onto their customers or onto their workers or onto their shareholders. The reactions may generate additional costs or may have positive economic outcomes. New sources will affect—either negatively or positively—the efficiency of the working of the world economy.

Who bears the cost is essential from the standpoint of assessing the justice or otherwise of the proposed measures, and this too is a complex matter. To begin with, public debate tends to think in terms of redistribution from rich to poor countries. But a number of the proposed measures could potentially impose costs on people outside rich countries. The Tobin tax would reduce the net sum received by the families of migrant workers. A global lottery could attract customers from all round the world. Nor is the world neatly divided. We have already drawn attention to the potential role of middle-income countries. Even if the impact is confined to rich countries, we have to worry about the distribution of the burden within those countries. An annual flow of an extra US$50 billion is only a fifth of 1 per cent of the GNP of donor countries, but there is no reason to suppose that the cost would be shared proportionately. We need to ask how far it is the poor in rich countries that would bear the burden.

1.6. GUIDE TO THE CONTENTS OF THE BOOK

The rest of the book contains three general chapters (Chapters 2, 10 and 11), seven chapters (Chapters 3–9) considering separately the different innovative schemes analysed here, and a concluding chapter (Chapter 12).

We believe that there are merits in setting different proposals alongside each other. Such a joint analysis helps the reader assess their relative strengths and weaknesses. We hope also that our book makes a contribution in terms of the methods of analysis. This is the main function of Chapter 2 and Chapters 10–11, which approach the question in a theoretical way, rather than examining individual proposals for sources of funding. They may appear rather abstract to some readers, but there is considerable value in standing back and asking hypothetical questions—such as (Chapter 11) what would happen if there were a central world taxing authority? It may suggest new

ways of viewing the problem. What is reality today was often hypothetical in the past. These theoretical chapters deal with over-arching issues, and this is the title of Chapter 2. Its aim is to set out a number of the common questions that arise in considering sources of new revenue for development finance. These concern the precise specification of the proposal, its relation with ODA, and the administrative architecture.

The taxation of externalities is the subject of the first of the chapters examining potential sources: Chapter 3 on environmental taxation. Much of the literature relates to taxes as instruments of national environmental policy, and their role in relation to economic development has been less discussed. The chapter begins therefore by preparing the ground, setting out the welfare economics of environmental taxation in a national context, including a detailed account of the double dividend issue. This provides the basis for an analysis of global environmental taxation, with specific reference to the carbon tax. The second major proposal for global taxation considered here is that for a currency transactions tax: the celebrated Tobin tax. As already noted, Tobin first put forward the idea for a currency transactions tax as a means of combating financial volatility. The potential of the currency transactions tax as a generator of revenue was suggested as a by-product. Here, Chapter 4 focuses on the by-product: the Tobin tax as a source of revenue for development. It examines the technical feasibility and the revenue potential from this source.

There has long been a campaign for the issue of development-focused SDRs by the IMF. The original purpose of SDRs was to increase international liquidity, but Chapter 5 concentrates on the potential role of SDR creation in providing funds for development finance. Calls have been made for developed countries to re-allocate their share of the SDR issue to developing countries. The chapter describes the historical development of SDRs and the recent proposals. It examines the arguments for and against development-oriented SDRs, and the institutional mechanisms necessary for their creation.

A starting point for this study was the observation that innovation in the sphere of public finances has not kept up with innovation in private financial markets. Making use of the latter to enhance the effectiveness of ODA is the essence of the recent proposal for the IFF, which is the subject of Chapter 6. Taking the proposal by the UK government as a case study, the chapter describes the possibility of a limited duration substantial increase in ODA where the value is enhanced by pre-commitment, allowing leverage by borrowing on the international capital markets. It sets out the institutional machinery proposed, and assesses the potential advantages and disadvantages.

Chapter 7 asks how far charitable donations by private individuals and firms can contribute to funding the Millennium Development Goals. What are the prospects for increasing donations for development, whether from small-scale donors, the super-rich, or the corporate sector? Charitable giving in rich countries is very substantial: in the US more than 1.5 per cent of national income. People give large amounts of free time. Development, however, commands only a small share. The chapter analyses the under-researched question as to how people determine the objects of

their giving, drawing on other subjects, notably marketing. It asks why people give to support the UN agencies, notably United Nations Childrens Fund (UNICEF), and whether private donations are crowded-out by governmental contributions or by ODA. It examines measures to encourage private funding of development: tax incentives, Global funds, corporate giving, and the Internet.

A relatively new idea for new development funding is that of a global lottery, which has received attention particularly on account of the recent proposal by the Crisis Management Initiative. World sales of gaming products are large and growing. Chapter 8 considers the prospects for tapping this market for the purposes of development finance by means of a global lottery and—a new idea—a global premium bond (a loan instrument where the interest takes the form of a lottery prize, the capital being repayable on request). The chapter investigates the feasibility of these mechanisms and their potential as revenue sources for development. It assesses their strengths and weaknesses, including both economic and ethical issues.

Remittances from migrants are a growing force, and Chapter 9 considers the role that they can play in financing development. To an important extent, they finance consumption. As Chapter 11 notes, they are an international mechanism of social protection based on private transfers. They can also contribute to financing investment, providing community infrastructure (such as schools) and funds for the financing of new enterprises. The chapter considers the motives for making such remittances, and the problems of measuring their extent. Remittances are channelled through a variety of financial entities, ranging from the formal to the highly informal. The chapter considers policies to reduce the cost of remittances and to enhance their development potential.

One purpose of our study is to bring to bear the accumulated knowledge in the field of national public finance, and more generally public economics. It is for this reason that, in thinking how the subject can be taken forward, we have included Chapter 10 on global public finance and Chapter 11 on the lessons from the fiscal federalism literature. The former considers the lessons from optimal tax design when applied at a global level. The latter chapter highlights some of the similarities and some of the differences between fiscal institutions in federations and those that might apply in a global setting. It draws a number of conclusions about sources of new revenues for development, dealing specifically with taxes on nations, taxes on global externalities, and taxes on internationally mobile taxbases.

Chapter 12, which is the final chapter, summarizes the key points to emerge and considers the way forward.

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