Financing Global Public Goods

A key challenge for international cooperation in the 21st century is the financing of global public goods. As the world economy has integrated further and continues to do so, the need for the provision of global public goods increases. These range form the protection of our climate to financial stability, from the control of infectious diseases to the diffusion of knowledge. The eradication of extreme poverty should also be considered a global public good. Many consider it a moral imperative which we agree with. But it also provides benefits to the international community as a whole because it reduces the risk of disease, state failure, piracy, terrorism, and environmental degradation and therefore, indirectly at least, contributes to the provision of global public goods.

In principle it is possible to finance GPGs through national taxation and provide them through internationally coordinated expenditure programs. In practice this is turning out increasingly difficult to achieve. GPGs are under-financed and therefore under-provided. Countries have found it very difficult to allocate tax revenues to cross border purposes. A good example is the failure for decades to honour an international commitment by the rich countries to allocate 0.7 percent of GDP to development assistance. Only very few Northern European countries achieve or exceed that goal. The current economic crisis will generate strong fiscal pressures throughout the world and notably in donor countries. There is the danger that the financing of GPGs through traditional budget processes will become even more difficult in the next few years.

A promising way to facilitate the financing and provision of GPGs is to create new sources of revenue that from the start have a more "global" flavor than traditional tax revenues. Taking into account decades of discussions and analysis on this subject, three such potential sources of revenues appear particularly promising : the purchasing power associated with the issuance of new global liquidity in the form of SDRs, revenues derived from the auctioning of carbon emission permits or internationally coordinated carbon taxes, and, a (very small) tax that could be imposed on cross border financial transactions or foreign exchange transactions. Very considerable resources could be mobilized if there was an agreement to use these three sources of revenue and there would probably be efficiency gains associated with them – not losses. This is most obvious for the auctioning of carbon emission permits, but it is true also for SDR emissions and likely for small transaction taxes on the extremely volatile foreign exchange markets.(throwing "sand" into those markets may help make them less unstable).

The US has been traditionally completely opposed to such instruments, interpreting them as "global taxes" and a move towards too much "supranationality". It is clear that a move away from the dollar to the SDRs as "reserve" asset, will cause a "seignoriage" loss to the US. As against that, however, could be set the benefit of greater macroeconomic stability world wide and in the US itself. As far as cross border financial transaction taxes and the allocation of some carbon emission auction revenues to GPGs are concerned, these need not at all lead to an equivalent net loss for the US as the US will benefit from the GPGs financed in that way. Of course in so far as some global redistribution objectives are built into the GPG financing system, the US and other rich countries would be expected to allow some implicit or explicit channeling of real resources from the rich to the developing countries. Finally it is not at all necessary to implement such new financing mechanism in the form of some kind of global taxation. The mechanisms can remain fully subject to national legislative controls and their implementation can take the form of cooperation between sovereign nation states.

The coming into office of the Obama administration should allow a new attempt to gain US support for the provision of key GPGs of huge importance to the world and to the US by the use of new, innovative financing methods. In the preparation of the G-20 meeting this could and should be a major theme. If the meeting could at least signal a willingness by all to seriously discuss these new financing sources and set up a follow up mechanism to do that, this would constitute a huge step forward.

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