GLOBAL POLICY FORUM

Progress on Global Taxes?

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December 2005

Many NGOs, economists and progressive political leaders have long promoted global taxes to finance development, curb global warming, and dampen currency speculation. But due to much opposition, especially in the United States, even supporters often expressed skepticism that global taxes would ever gain political traction. Recent developments could prove these skeptics wrong.

During the past two years, political leaders and influential institutions have taken important steps toward global taxes. The Belgian parliament adopted a currency transaction tax (CTT) in July 2004 to fund development and curb currency speculation. Six months earlier, the "Lula-group," an initiative by French President Jacques Chirac and Brazilian President Luiz Inacio "Lula" da Silva, launched a high-profile campaign supporting international taxes to finance the United Nations Millennium Development Goals (MDGs). The campaign put global taxes on the agendas of governments and international institutions. At the UN Millennium+5 Summit in September 2005, the Lula group persuaded 66 countries to support a proposal on an airline ticket tax.[1]

Other initiatives came from the French government, the European Union and the UN University and the World Institute for Development and Economics Research (UNU-WIDER). They issued influential reports concluding that global taxes are both needed and technically feasible. Even the International Monetary Fund (IMF) and the World Bank have given global taxes some attention. At their spring meetings in 2005, the IMF and World Bank joint development committee invited the international financial institutions to "deepen their analysis of the most promising nationally applied and internationally coordinated taxes for development."[2]

These events are quite exceptional after years of little progress and official disapproval. In the United States,

[1] UN Press Release GA/10389 (September 18, 2005) & Technical Group on Innovative Financing Mechanisms (September 14, 2005)
[2] Development Committee Communiqué (April 17, 2005)

conservative members of Congress repeatedly introduce bills opposing global taxes in the name of safeguarding US sovereignty. Powerful interests like banks and institutional investors vigorously oppose taxes on financial transactions, while large corporations (including oil and energy producers) pressure governments to resist taxes on hydrocarbon fuels.

But, when the leaders of powerful countries eagerly endorse global taxes, the topic no longer represents a taboo in international relations. The Lula group and related initiatives have given global taxes an official stamp of legitimacy. Their initiatives show skeptics that global taxes can play an important role in development financing.

Nonetheless, a closer scrutiny of the proposals reveals two major deficiencies. First, they focus solely on the revenue raising aspect of the taxes neglecting, and in some cases actively downplaying, the vital role taxes can play in steering policies, for example curbing global warming and reducing harmful currency speculation. Second, many of these recent initiatives have failed to deal adequately with tax governance, and how to guarantee that the tax funds will be spent in a democratic way to finance real development. Without any guarantee that tax revenues will finance development, nothing will prevent governments from spending the tax funds on other priorities, including boosting military budgets or cutting taxes for the rich.

A BRIEF LOOK AT SOME OF THE RECENT PROPOSALS

Belgian Parliament

In July 2004, the Belgian parliament passed legislation on a Currency Transaction Tax (CTT) to raise revenue for a EU fund for development. Belgium was the second country after France to adopt legislation on a CTT. While the Belgian law, like the French one, will not come into force without the participation of other EU states, it was ground-breaking in that it demonstrated how to practically and technically introduce a CTT. The tax provides for a two-tier taxation system which could raise $50 billion per year and stop currency speculation during high market volatility.[3] Among other recent high-level initiatives on global taxes, the Belgian legislation is the only one to seek a policy effect (preventing financial crises) as well as raising revenue for development.

Lula Group

In January 2004, the presidents of Brazil, France and Chile, supported by UN Secretary General Kofi Annan, set up a “Technical Group on Innovative Financing Mechanisms,” better known as the Lula group after Brazil’s president Lula da Silva. In September 2004, the Lula group released its report on “Action Against Hunger and Poverty,” arguing for alternative financing for development to reach the Millennium Development Goals (MDGs). The report claims that current sources of development finance are inadequate and unpredictable. “Aid pledges depend upon internal budget decisions – which, in turn, are conditioned to changeable political

[3] Chamber of the Representatives of Belgium (July 15, 2003)

circumstances." According to the report, taxes on financial transactions and arms trade could provide more efficient and predictable flows of aid and allow for "a more balanced and inclusive globalization."[4] In September 2004, at a meeting organized by Lula, more than 100 countries signed the New York Declaration on alternative financing for the MDGs.[5]

The Lula group, joined by the leaders of Spain, Germany and Algeria, continued to release statements and proposals, in an effort to bring global taxes to the negotiating table of the UN Millennium Summit +5 in September 2005. As the summit drew closer, the group focused on proposals it considered most likely to gain political support. By June 2005, the group had narrowed down its tax proposals to a "solidarity contribution" on plane tickets.[6] At the September summit, 66 governments signed the Lula group's "Declaration on Innovative Sources of Financing for Development" and a smaller number of countries announced that they would implement a tax on airline tickets as early as 2006.[7]

UNU-WIDER – Atkinson (September 2004)

Responding to a call from the UN General Assembly, the UN University and the World Institute for Development and Economics Research (UNU-WIDER) undertook a project on "Innovative Sources for Development Finance." Released in September 2004, the study did not introduce any new proposals, but analyzed existing development financing proposals, including global taxes on carbon emissions and currency flows.[8] Still, the report played an important role in creating momentum on global taxes as a source for development financing. The report also closely relates to other recent initiatives on global taxes. The director of the study, Professor Anthony B, Atkinson participated in the Landau panel that produced the Landau report. (See below)

Landau Report – France (December 2004)

The Landau report, released in December 2004, was commissioned by President Chirac and produced by a group of French and British specialists. Like the UNU-WIDER report, the Landau report did not bring any new global tax ideas to the table. But, the work of the expert commission had a strong influence on the Lula group's report[9] as well as on the EU tax initiative. Like the Lula group report, the Landau panel criticizes current Official Development Assistance (ODA) practices, arguing that international taxes could "ensure stable and predictable aid flows." The report proposes international taxes on carbon emissions, financial transactions, arms and the profits of multinational corporations to improve progress on the MDGs.[10]

European Union

Building on the Landau and Lula reports, the European Commission released three papers in 2005 on global

[4] Technical Group on Innovating Financing Mechanisms (September 2004)
[5] New York Declaration (September 2004)
[6] A solidarity contribution on airplane tickets: Some Q & A's (June 2005)
[7] Declaration on Innovative Sources of Financing for Development (September 14, 2005)

[8] Atkinson (September 2004)
[9] Wahl (May 2005)
[10] Landau (December 2004)

taxes to raise revenue for ODA.[11] The Commission initially looked into several taxes, including a CTT, environmental taxes, health-related taxes, taxes on arms trade and the profits of transnational corporations. Its June 2005 report had narrowed the options down to a contribution on airline tickets. According to the proposal, each member state can choose whether it wants to participate in the scheme. Depending on how many states participate and whether governments make the tax voluntary or compulsory for passengers, it could raise between €568 and €2,763 million annually for development.[12]

SLIMMING DOWN GLOBAL TAX PROPOSALS

Apart from the Belgian legislation, all these initiatives propose taxes solely to raise revenue for development. But taxes can also have important policy steering effects. On a national level, governments tax commodities and activities to discourage a certain consumption or behavior. For example, taxes on alcohol and tobacco aim to decrease consumption and promote public health.

Similarly, on a global level, taxing currency transactions would decrease harmful currency speculation and promote international economic stability. A carbon emissions tax would increase costs of hydrocarbon fuels like oil, coal and natural gas and curb global climate change. And, a tax on arms trade would aim to decrease armed violence.

Maximizing Tax Revenues versus Achieving Policy Steering Effects

Tax advocates have long sought to achieve a balance between maximizing tax revenues and achieving policy steering effects. Essentially the two goals compete. A high tax on carbon emissions could curb global warming but would raise less revenue since the tax base declines as fewer people use fuels with carbon content. On the other hand, a low tax would bring stable revenue, but have little, if any, effect on the environment. Many global tax proponents have tended to focus on one goal over the other. Indeed, economist and Nobel laureate James Tobin proposed his famous tax on currency transactions (Tobin tax) to decrease harmful speculation, paying little attention to the revenue raising aspect of the tax.[13]

In the last decade or so, global tax supporters have lobbied for proposals that would balance the revenue raising objective with the policy steering goal. Researchers have experimented with tax rates that would discourage some activity but still raise revenues. Economist Paul Bernd Spahn developed a CTT proposal, providing for a two-tier taxation system with a low first-tier tax to guarantee constant revenue and a high second-tier tax, which applies only during periods of exchange rate turbulence, to prevent massive currency flows and subsequent financial crises.[14] The Belgian legislation followed this model.

Global Taxes for Political Image?

In spite of these developments, most of the recent proposals focus solely on

[11] European Commission (April 5, June 15, September 1, 2005)
[12] European Commission (June 15, 2005)
[13] Tobin (1978)
[14] Spahn (1996)

raising revenue, deliberately neglecting the policy steering potential of the taxes. While raising resources for development is indeed an important enough reason to introduce taxes, development would certainly benefit from a stable financial system, an environment not plagued by natural disasters, and a world with less arms. If world leaders truly seek to promote sustainable development, then why do they choose to weaken the proposals?

Probably, leaders seek to maximize political support for these proposals in a short time period, before important high-level meetings on development or before their terms of office expire. A higher tax –that could have a policy steering effect– would meet much more resistance and might not attract enough support in the short term.

In 2004-2005, leaders faced increasing pressure to take action against poverty. Prior to the UN summit in September 2005, numerous NGO and UN reports emphasized that governments had not done enough to decrease poverty and hunger. The UN Millennium Project study, led by economist Jeffrey Sachs, stated that in order to reach the MDGs governments would have to almost double ODA to $135 billion by 2006 and further increase it to $195 billion by 2015.[15]

Rich countries have not committed nearly enough resources in spite of their pledges to increase ODA and debt relief. Ensuing NGO demands for increased development funds have resulted in government proposals on alternative development financing. Most of these public relations driven proposals emphasize that global tax revenues must be "additional" to increases in ODA. But, some governments evidently see global taxes as a means to increase their national ODA budgets and painlessly reach the internationally agreed goal of 0.7% of Gross National Income (GNI). By blurring the distinction between national and global tax revenue, governments can avoid directing a larger part of the national budget to ODA. The working papers of the European Commission state that resources raised through global taxes and used for development purposes "could be regarded" as ODA.[16]

Other leaders promote development initiatives in order to look good in the eyes of their electorate. Opinion polls in OECD countries show high public support for helping poor countries.[17] In 2005, massive citizen mobilizations rallied under the slogan: "make poverty history." British Prime Minister Tony Blair, eager to improve his image after the Iraq war, made the MDGs and development in Africa the centerpiece of the UK presidencies of the G8 and the EU. French President Chirac, unwilling to give up the EU's high agricultural subsidies for French farmers, has taken leadership on the global taxes campaign, boosting his image as someone dedicated to development of poor countries. In addition, the European Commission emphasized the "political message of European solidarity towards developing countries" that an EU initiative on airline taxes would have at the Millennium+5 Summit.[18]

[15] Sachs (January 17, 2005)

[16] European Commission (April, **June**, September)

[17] OECD Development Centre (November 2003)

[18] European Commission (September 1, 2005)

With their image at stake, leaders push for less ambitious proposals that can be adopted swiftly rather than more ambitious projects that would take longer to enact. The contribution on airline tickets will add only a small amount to development aid. It will have no effect on the environment or in democratizing global governance. NGOs must therefore put pressure on governments to ensure that such a tax only represents a first step towards more ambitious and effective proposals.

UNIVERSAL VERSUS REGIONAL

Opponents of global taxes often argue that unless every single country in the world adopts the tax, there will be serious tax evasion and distortion of competition. While a growing number of governments support global taxes, opposition remains strong. So, universal agreement seems unreachable in the near future. However, tax advocates, including the authors of the recent proposals, offer flexible solutions that do not require universal participation. For example, the Lula group's pilot project to introduce a "solidarity contribution on airplane tickets" states that not all countries must participate since the tax would be too small to distort airline industry competition or encourage tax evasion.[19] Similarly, the European Commission looked at a variety of proposals that do "not need global consensus and hence can be implemented at the regional (EU) level."[20]

Even with a tax large enough to have a policy impact, regional implementation can be possible. For example, the Belgian CTT legislation seeks to stop excessive currency speculation on an EU level with a robust second-tier tax (applied only under currency exchange rate turbulence). Many countries have introduced substantial environmental taxes on a national level. In 2005, New Zealand became the first country in the world to introduce a carbon tax to address global warming.[21] Regional and other non-universal approaches allow for a small committed group of countries to adopt a more ambitious proposal, rather than compromising with a very weak universal instrument. As non-participating countries see that the tax works, they can join the group at a later stage. While the Lula group and related initiatives do favor more flexible approaches to global taxation, they fail to use these models to champion more ambitious proposals.

ANARCHY OF TAXES

How should global taxes be governed? Who should make decisions on collecting and distributing the taxes and how? Must states cede parts of their sovereignty to a global tax authority or can national governments take ultimate responsibility for collecting and distributing the taxes?

Clearly, the prospect of a global tax authority intimidates anyone who thinks national governments and parliaments are the best defenders of their citizens' interests. Recent proposals tend to downplay the global governance aspects

[19] A solidarity contribution on airplane tickets: Some Q & A's (June 2005)
[20] European Commission (April 5, 2005)

[21] Guardian (May 5, 2005) New Zealand First to Levy Carbon Tax

of global taxes. They argue for "nationally implemented" taxes that will be "internationally coordinated." But the proposals give little attention to the coordination aspect. The Lula group proposes to tax airplane tickets nationally with each participating country designing its own domestic tax scheme. The proposal goes on to say that, participating governments "could" choose to coordinate the tax rate and revenue distribution through "some kind of international agreement."[22] In other words, citizens must trust that governments will use the taxes for development. Even if current governments remain committed to spending the revenue on development, nothing can guarantee that future governments will not spend the revenue on other purely national priorities.

Other initiatives, including the Belgian legislation and the Landau report propose to earmark tax revenues to a development fund or a specific cause. Earmarking would guarantee that governments spend funds on development. But such a system without effective oversight could still leave un-addressed some of the main problems of the current development system, such as the lack of voice of poor countries and aid tied to conditionalities. Governments collecting taxes and handing the revenues to a fund will most probably demand a disproportionate say in how the money is spent. They might very well design an undemocratic governance structure dominated by rich countries, such as the much criticized governance system of the IMF and the World Bank.

[22] A solidarity contribution on airplane tickets: Some Q & A's (June 2005)

Global Taxes to Democratize Global Governance

Global tax governance is part of the larger debate about global governance. National governments can no longer control their destiny in the face of global problems like climate change, financial instability and rapid disease transmission. So, increasingly, governments hand over part of their sovereignty to regional or global organizations and treaty bodies. But democracy scarcely exists at this level and there are few channels for democratic citizen input and accountability.

Some researchers have seen global taxes as a way to democratize the global governance system through new global democratic institutional arrangements. In 2002, professors Heikki Patomäki (Nothingham Trent University) and Lieven A. Denys (Free University of Brussels) prepared a detailed and comprehensive draft treaty on a global CTT, which included a democratic CTT organization to oversee the levying and spending of the tax. They proposed that governments, national parliaments, and civil society would have representatives in the CTT organization.[23] The Lula group and related initiatives can learn much about the importance of tax governance from this proposal.

CONCLUSION

Recent developments on global taxes show that such taxes are not only feasible and desirable, but also that they can attract substantial political support. In fact, the strength of the Lula group proposal and similar initiatives lies in their ability to assemble support and

[23] Patomäki and Denys (January 24, 2002)

make the idea of global taxes less of a taboo. Their weaknesses include neglecting the taxes' policy steering capacity and insufficiently dealing with tax governance.

In the current political context of US opposition to multilateral initiatives, recent proposals have downplayed the global and international aspects of global taxes to gain wider support. Still, what is the use of a global tax that will not have any important policy effect nor guarantee that funds will promote development? Experiences in the current international development system show that poor countries must have a say in how development funds are spent. NGOs must insist on a democratic governing system of global taxes where funds are additional to ODA and spent in an accountable way to finance real development.

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