



Alternative Financing for Global Peace and Development

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The Need for New Approaches

Dues from member states have supported the United Nations since its founding. But increasingly in recent years, states have failed to pay. At the same time, nations have been contributing less to UN *voluntary* agencies and multilateral aid programs as well. Overseas Development Assistance has been falling, worsening poverty in the poorest countries. All across the board, the funding system based on nations has been unraveling. So while global problem-solving is needed more than ever, the funding crisis has strangled joint efforts to protect the environment, promote public health, defend human rights, care for refugees, foster development and promote peace.

In the short run, the crisis can only be resolved by an improved system of payments from member states. But in an era when governments throughout the world are under pressure to cut their budgets, we must find alternate means to fund the UN and other global agencies, to reinvigorate these institutions and to fund increasing global tasks.

Many experts have proposed alternative funding schemes, usually based on global taxes or fees. The experts argue that the proposals can be a step towards stronger global institutions, less dependent on the shaky finances of nation-states. Proponents of innovative financing also argue that other policy goals will be served -- such as reducing the consumption of environmentally polluting fossil fuels through a [global carbon tax](#), or reducing currency speculation through a [global tax on currency exchange](#).

Levies, Fees and Services

In virtually all cases, the proposals would levy very small taxes or fees on very large global transactions, yielding a large revenue while imposing a relatively light burden on any individual. The proposal known as the Tobin Tax, after economist James Tobin of Yale who first proposed it in 1972, would impose a tax of just a fraction of one percent on a currency exchange volume estimated at more than \$250 trillion. One tenth of one percent would yield the gigantic sum of \$250 billion, twenty-five times the expenditures of the whole UN system in 1995.

Alternative funding proposals include: fees for commercial use of the oceans and the atmosphere, for parking of satellites in earth orbit, for commercial use of the airwaves, and for commercial use of the seabed; taxes on the arms trade, on tobacco products, on fossil fuels and nuclear energy, on forest products, and on mining of minerals; taxes on currency exchange and on other financial markets; fines on ocean dumping and other forms of environmental pollution; and taxes on international air and sea travel.

As an alternate, some experts have urged arrangements for revenue-raising that would sell goods or services. UNICEF's sale of holiday cards may be the most visible and effective example already in practice. This cluster of proposals include a global lottery, sale of special stamps, fees for the services of international organizations, a global currency exchange authority, and a UN Security Insurance Agency. The latter would receive insurance premiums in exchange for guaranteeing the security of a nation -- a novel if somewhat unusual concept.

Often the schemes involving taxes or fees propose sharing the revenue between the UN, national governments and other international agencies. For example, at the international level, revenues might be shared between the development banks (like the World Bank), UN specialized agencies and funds, and the UN regular budget. Critics of the development banks oppose this concept, while "realists" think that more beneficiaries will assure wider the support for such potentially controversial new schemes. Since national governments must agree to the concept and will likely be involved in revenue-collection, some argue that they will inevitably claim a major share of the receipts.

The Need for Oversight and Democratic Control

Many proposals ignore or minimize the question of oversight and control. Some reformers would like to see an automatic flows of funds, to give the UN "autonomy" from the pressure of national governments. The term "automaticity" is sometimes used to describe this. In some ways it is similar in concept to the gasoline tax in the United States, which goes into a "trust fund" devoted to building and improving highways. The trust fund was set up to exclude highway building from regular budgetary scrutiny. Though some of the trust fund monies

are now used for mass transit, the overall effect of this automatic funding of highways has tended to block environmentally-sound planning.

The "automaticity" perspective on innovative finance overlooks the need for maximum democracy in the global policy making arena and it tends to place too much faith in technocrats or supposedly benign institutions. Any tax must be subject to a democratic system of oversight and accountability if the world's citizens are to have confidence in it and give it their support. This would require control by a representative decision-making body -- ideally a directly-elected parliament, at least a representative intergovernmental body like the UN General Assembly.

Opposition and Support

Traditional nationalists, concerned about the erosion of national sovereignty, have opposed any plans for global taxes. The sharpest criticisms have come from the United States Congress, where in January 1996 the Republican leaders introduced a law forbidding the United Nations from even *discussing* global taxes. In the summer of 1996, Sen. Jesse Helms attached the substance of this bill to the bill appropriating funds to UN voluntary agencies. Only a very watered-down version remained in the final legislation as passed and signed into law, but the move sent a chilling message to all those working on alternative finance within the UN.

The Clinton administration, keen to avoid controversy, has expressed its opposition to any proposal that looks like a tax. So have a number of powerful transnational financial institutions, including the International Monetary Fund. On the other hand, several governments, including Sweden, Australia, Austria and Malaysia, have been advocates of alternative funding. Other governments, like Canada and the Netherlands, have lent their quiet support. And the concept has gained the endorsement of prestigious reform studies, such as the reports of the Commission on Global Governance (pp. 217-221) and the South Centre (pp. 88-92), and the Childers-Urquhart book (pp. 154-156). The Independent Commission on Population and Quality of Life commissioned a special study, funded by the Carnegie Corporation of New York (a private foundation), which was first presented in February 1995 and published in the summer of that year. More and more countries have expressed an interest in the idea.

Not all support comes from those who want to find funding for the UN or for international development. There is growing interest in achieving policy goals -- like reduced carbon emissions or dampened foreign exchange flows -- that some of these proposals would accomplish. A symposium in the July/August 1995 issue of *The International Economy* revealed that many high level people in the financial world are deeply concerned about the instability of unregulated financial

markets and looking for ways to head off future speculative panics. At the same time, environmental organizations seek means to reduce emissions and global warming; they have found allies among big insurance companies, that are beginning to favor of environmental action to head of costly natural disasters. Core political support is coming together behind new financial mechanisms.

UNDP Projects and Other Initiatives

Dozens of experts have written papers on global levies since 1990. The United Nations Development Programme has been especially active in exploring alternative financing. It has commissioned and published several papers of its own on the subject. Ruben Mendez of UNDP published a classic general study entitled *International Public Finance* in 1992 and he has written a series of articles on alternative financing schemes. David Felix, emeritus professor of economics at Washington University St. Louis, wrote an important paper on the Tobin tax under UNDP auspices. On October 10, 1995, the UNDP Office of Development Studies held a seminar on "New and Innovative Sources of Development Financing" in New York for which UNDP commissioned a number of major expert papers. Most of the papers discussed the Tobin tax, but at least one major paper considered environmental taxes such as a "carbon tax."

Many of the papers from the October seminar appeared in a book edited by ODS chief Inge Kaul, along with Mahbub al Haq and Isabelle Grunberg, published by Oxford University Press in July 1996. Hans d'Orville, another leading expert on alternative finance, is also on the staff of UNDP where he directs the Technology Task Force. But because of US pressure and US cuts in UNDP funding, UNDP has drawn back almost completely from its work on alternative finance in 1996.

A number of NGOs have been active in the field. ECAAR (Economists Allied for Arms Reduction) held conferences in New York and Rotterdam in the fall of 1995 which also considered alternative funding proposals. And the Global Commission to Fund the United Nations put together a special issue of the journal *Futures* (March, 1995), which was subsequently published as a book in the spring of 1996.

At the United Nations, UNDP stimulated discussion of the issue in 1994 and early 1995, in the run-up to the Social Summit, through proposals in the *1995 Human Development Report* and several separately published policy papers. An Expert Group, convened to look into financing for Agenda 21 (the agreements of the Rio Summit on the Environment), met in Kuala Lumpur 2-4 February 1995 and suggested alternative financing in its report (E/CN.17/1995/29). The Social Summit preparatory process had considered the issue, but gave it little place in

the final conference documents (March, 1995). However, French President Francois Mitterrand raised the issue in his speech to the conference plenary.

UN 50 and Beyond

In October of 1995, during the UN's Fiftieth Anniversary Celebration, several heads of state and government proposed alternative funding in their speeches, including Malaysia, Pakistan, Sweden and Australia. On 21 November of 1995, Amb. Nicolaas Biegman, the Permanent Representative of the Netherlands, invited 30 delegations to a working lunch on the subject of alternative finance. The Austrian delegate, Amb. Ernst Sucharipa, Co Vice Chair of the GA Working Group on UN Finance, worked with the Dutch on the event. These two countries remain actively interested in the issue. Australia proposed establishing a high-level Commission in 1995. Alternative finance came up again in reports and speeches by the Secretary General (see esp. his speech at Oxford on 15 January 1996), in a further Agenda 21 Expert Group meeting in 1996 (E/CN.17/1995/29) and in the 1996 sessions of the Commission for Social Development in April. On 24 May, the General Assembly passed a resolution on the Economic and Social Sectors. Among other things, the resolution asked the Secretary General to report on new and innovative ideas for generating funds for development.

The issue was raised by Austria at the High Level Segment on 28 June, when Benita Ferrero-Waldner, State Secretary for Foreign Affairs, called for "additional financing mechanisms for the funding of global priorities." She then mentioned the "currency transactions levy" as a "promising proposal to be further looked into" and concluded with a proposal that "ECOCOS, in cooperation with various components of the UN and Bretton Woods systems, undertakes to advance the discussion on innovative financing."

ECOSOC 1996

It came up again as a special agenda item (proposed by Australia) at ECOSOC on 11 July 1996. Prior to the meeting, the Secretariat had prepared a substantial paper summarizing proposals and the primary literature. There was a [full debate](#) that drew a surprisingly large number of interventions from delegations. Many delegations emphasized that alternative finance should not be seen as a substitute for the responsibility of member states to pay their dues or as a substitute for the 0.7% goal on overseas development assistance.

United States delegate Victor Marrero dismissed the need for new sources of funds for development, saying that private investments were now sufficient. The US made it clear that it was strenuously opposed to any kind of global tax. But most of the rest of the membership, in spite of reservations, seemed ready to

move further. Ireland, speaking for the European Union, spoke of a readiness to "move forward" and proposed setting up "a small, independent advisory group of internationally recognised experts" to consider the idea in depth and possible means of implementation. GPF Executive Director [James Paul spoke](#), calling for feasibility studies and eventual intergovernmental negotiations. In the end, an ECOSOC resolution of 25 July asked for a substantial report from the Secretary-General at its next session (the report also to be presented to the 52nd General Assembly) [E/1996/L.47]. This step, while not dramatic, encouraged further work on the issue within the Secretariat.

Other Initiatives

In many places, research, public meetings and political mobilization began. Public Services International, the trade union federation representing public service workers around the world, came out in support of global financing in an editorial in the June 1995 issue of its magazine, *Focus*. Editors of five Swedish trade union publications issue [a European call for a Tobin tax](#) in the July 1996 issue of *Le Monde Diplomatique*. In October of 1996, the Canadian Federalist Association called on Canada's Foreign Minister to support alternative funding, in the context of the UN's financial crisis and in the same month the respected US journal *Foreign Policy* published an article by its editor which called for new approaches including "new sources of revenue for the international system." In November, the Washington-based National Council for International Health began to circulate a [plan for a fee levied on international airline tickets](#), the revenues of which would be used for international health purposes

1997: US Pressure and International Stalemate

During the fall of 1996 and early 1997, momentum continued, but everywhere the actions of the US Congress had a chilling effect. In early September 1996, UNDP official Richard Jolly told astonished NGO representatives that UNDP's book on the Tobin Tax had been printed "privately" (that is, in the name of the editors and without UNDP's imprimatur) and that he had been forced to prevent UNDP's "top expert on global finance" (Inge Kaul?) from attending a recent meeting in London. After several years of lively activity in UNDP, no one remained at work on the issue by year's end.

The Clinton administration, keen to make peace with Sen. Helms and other Congressional conservatives, made it clear that the UN must abandon all thought (and discussion) of the issue. And by early 1997, Helm's "benchmarks" for repayment of UN arrears were known to carry an immutable ban on global taxes.

Still, the European Union pressed forward. In the run-up to the General

Assembly Special Session on the Environment, the EU put forward a proposal for a global "air fuels" tax that would at long last impose a tax on aircraft fuel in parallel to the national taxes on fuel for cars and trucks and other petroleum products. The tax proposal had the advantage of being modest in size, focused on just one industry (airlines), and clearly favorable to the environment. It faced predictable resistance from oil producing countries. But in addition US opposition was adamant and unyielding. In spite of vigorous EU advocacy, the tax never made it into the final document approved by the Special Session in June. The EU announced that it would consider applying the tax within the Union, as part of a move to reduce employment taxes (taxes on "goods") and increase taxes on activities that harm the environment (taxes on "bads"). Observers think that it has a good chance of implementation in Europe and could then be widened if agreements on global warming in Kyoto make it necessary.

If Europe remained the center of support for global taxes, even in the United States global taxation appeared a lively issue. The *New York Times* published a "viewpoint" article on June 6 (shortly before the Special Session) by William Evans, professor emeritus of the prestigious Wharton School of Business entitled ["To Help the UN, A Tax on Trade"](#). NGOs, academics and journals continued to examine the ideas and debate the possibilities.

ECOSOC '97

After the Special Session, attention turned to the debate at the Economic and Social Council in Geneva in late July. At ECOSOC the year before, delegates had mandated the Secretary General to produce a new report on the issue. In mid-July a report finally appeared that was deeply disappointing to global tax advocates. It said very little, argued for private sector initiatives, and dismissed any possibility for global taxes. During the [debate on July 23rd and 24th](#), speeches were generally lifeless. Apparently, delegates had accepted the US threat that global taxes could not even be *discussed* at the UN. But a lively [intervention from ISMUN](#), the International Youth and Student Movement for the UN, protested the silence and called for renewed commitment to the effort. Another disappointment loomed. The Dutch government had been planning to hold a conference on global taxes in the fall. Names of participants had been gathered, planning consultations held. But Dutch officials apparently decided that the time was not ripe, given the strong U.S. opposition. So the conference was quietly dropped.

The Future

In the face of implacable hostility from business conservatives, the whole project for global taxes and fees could falter. There must be a broad campaign to

explain this idea to the public and win popular support -- as well as feasibility studies to explore what will work best.

Alternative funding is no easy solution. There will be sharp political battles over who will pay, how the funds will be controlled, and what they will be used for. It can be a watershed -- arguably the first truly global political debate, the first truly global political project.