

Consensus-Building Approaches to Financing Global Public Goods

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I. Some examples of GPGs include:

- A. Peace and peacekeeping
- B. Control of transnational crime and terrorist activity, e.g., private WMD production and transport, international fraud and financial crimes, computer viruses; etc.
- C. Currency market stability
- D. Global environmental goods, e.g. the climate, biodiversity, controlling spread of pests, invasive species, animal and plant diseases; etc.
- E. Public health, especially infectious disease control and prevention
- F. Meeting the millennial development goals
- G. The stock of human knowledge and technique, e.g. privatized knowledge such as patents, copyrights, etc.; public knowledge, knowledge relevant to self-governance and the effective exercise of democratic rights, such as news; and the external benefit of education

II. Five criteria for ideal financial instruments to fund global public goods (GPGs).

A. Secure and adequate revenue stream.

B. Economically efficiency. Relatively efficient instruments can be divided into three classes.

1. **Efficiency-enhancing.** In some case the public good we seek to finance is intended to rectify harms caused by an identifiable human activity. In these cases, a charge against that activity is a particularly apt, because the charge deters the activity and so reduces the harm directly. Provided that the charge does not exceed the marginal social cost of the activity, such charges improve the efficiency of the economy by including some or all of the cost of the harm in the price of the good. Examples of instruments that are ideal in this sense would include:
 - a. Ad valorem taxes or fees on weapons or ammunition to finance peacekeeping;
 - b. Fines and fund seizures to finance law-enforcement and anti-terrorist activities;
 - c. Tobin tax on international currency sales to finance currency stabilization funds and activities;
 - d. A greenhouse gas charge on each tonne of CO₂ or CO₂-equivalent emissions to finance research, development and commercialization of energy-efficiency and renewable energy technologies, and their adoption by developing nations;
 - e. A charge on activities that tend to result in species destruction, such as clearing forest lands or a biomass charge on fish takes in the seas, to fund preservation activities.
 - f. Tariffs or excises on international transfers of produce and livestock (including pets) to finance activities to control the spread of invasive species and animal and plant diseases;
2. **Efficiency-neutral.** Some methods of finance impose no excess burden, i.e. their cost to society is the same as the revenue they raise. This reduces the hurdle rate for GPGs that provide a net benefit, because the benefit need be greater than only the direct costs of finance and not the additional costs of distortion. Key instruments here are charges against resource rentals – value earned by owning or having a right to exploit resources not created by human activity, such as land, mineral rights, rights to the absorptive capacity of the air or water, rights to harvest natural biological resources like wild fish, etc. These charges overlap with externality charges, but resource rentals are flows of funds that come from having a right to exploit a portion of the

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planet's natural bounty, typically fixed (land), exhaustible (oil), or depletable (fish); while externalities arise from human-produced substances or activities, usually as a side-effect of productive activity. For example, from a no-policy *status quo ante*, the adoption of a greenhouse gas emission charge internalizes an externality. But if emissions have been limited to the estimated absorptive capacity of the atmosphere through a grandfathered emissions permit system such as the EU's, switching to auction or fees constitutes a charge against rental value of the resource.

3. **Low efficiency costs.** In general, distortionary effect of finance through fees or taxes increases with the square of the rate. Thus instruments that charge a low rate on a wide base have desirable efficiency properties. This is one reason that many GPGs are financed through national contributions – the revenue source for most industrial nations at least has a very wide base, and the increments to those rates for GPG finance are currently almost imperceptibly small.

C. **Fair.** There are three basic principles of fairness: fault, benefit, & distributional equity.

1. **Unfair instruments** – ones that meet none of these criteria – are in quite common use. For instance, because of limited administrative capacity many developing nations are forced to finance government operations primarily using bases that are easily monitored but have little equity justification, such as tariffs or excise taxes on imported goods. Few instruments meet any two of these equity criteria. It is, however, often possible to meet multiple criteria through the use of multiple instruments, and particularly, by considering the financing mechanism and the benefit of the good financed taken together.
2. **The fault principle** applies a charge on activities deemed to be immoral or harmful to others. As a financing (as opposed to a policing) device, the charge is usually set so as not to exceed the cost of the harm (for policing the charge may be higher for deterrence). Examples include sin taxes and pollution emission charges of various sorts. Thus the “polluter pays principle” and virtually all the charges referred to in section B.1 above are based on both an economic and a moral principle.
3. **The benefit principle** states that charges should be based on the value of the benefit received.
4. **Distributional equity**, sometimes called the ability-to-pay (AtP) principle, requires that revenue payments be proportional or progressive in some measure of ability to pay.

D. **Politically feasible.**

1. The power to tax is often seen as a peculiarly sovereign privilege. To date there has been virtually no effective delegation of taxing power to international or multi-national authorities. Although efforts to harmonize national tax regimes have sometimes been successful, particularly when they are seen as devices to increase the ease with which compliance with national tax systems can be enforced, proposals for true international taxes, as well as more modest efforts such as the EU's proposal for a harmonized carbon excise, have met with nearly uniform failure.
2. Both efficiency and fairness criteria play an important role in determining the political feasibility of a financing measure, and are discussed above primarily for the purpose of identifying their implications for the feasibility of financing mechanisms.
 - a. Efficiency plays a primarily ideological role, with efficient instruments garnering increased support because of their connection to free-market ideology and the neoliberal consensus. Historically this support has been only a modest bulwark against opposition based on economic interests, and the combination of economic interest-based opposition and plausible claims that a financing mechanism is inefficient has been particularly fatal to GPG proposals. However, the support for efficient instruments such as externality charges has been increasing with time and familiarity, and it is important to the long-term success of the effort to devise truly adequate GPG financing mechanisms to keep the efficiency arguments constantly on the table. In addition, the relatively bold efficiency-based proposals may highlight the reasonableness of more modest efforts in the same direction.
 - b. Fairness concerns, on the other hand, play a critical role, as principles of economic interest generally align with particular fairness arguments. In particular, industrial nations often base

their support or opposition on benefit-based principles, while developing nations often focus on distributional equity concerns. However, by definition, developed nations have most of the resources required to provide GPGs. Thus we must realistically recognize that for the foreseeable future most GPG financing mechanisms will have to meet a benefits test.

- E. **Administratively feasible** instruments for international finance are more difficult to identify and construct than comparable instruments for national finance, because of the absence of any international authority with substantial power to enforce contributions. Many key proposals such as the Tobin tax face very serious questions about their administrability that can probably not be fully addressed without the participation of national fiscal and monetary authorities. Convening such discussions is a potentially important role for the L20.
- F. **The conclusion** of the discussion above is that the negotiation of adequate mechanisms for financing GPGs is a substantial challenge.
1. Alternative approaches to fairness often produce conflicting results, although in some cases these conflicts can be overcome through careful policy design.
 2. Many instruments that are efficiency-enhancing or have low efficiency costs appear politically infeasible in the short run. Externality charges and charges against resource rentals often face opposition from the industries on which the charge is imposed, sometimes bolstered by neoliberal free-market ideologies that support privatizing the various commons. However, it remains important to keep them on the table, for two reasons. First, the relatively bold and substantial efficiency-based proposals may help to make more modest efforts in the same direction appear more reasonable, and so facilitate a process of gradual and progressive reforms. Second, it seems clear that the construction of truly adequate GPG financing mechanisms can not succeed without the ultimate adoption of at least some of these proposals.
 3. In implementing financing methods based on externalities or fault, maintaining a clear distinction between charges implemented under the taxing power for the primary purpose of raising revenue as versus fees and fines that are designed to efficiently promote ends of public health and safety under the police power may be politically and/or legally important.
 4. It is particularly important to establish new and distinct conceptual and political categories for flows of funds to GPGs as opposed to developmental assistance, whether through dedicated revenue sources or through allocation of general revenues through politically and administratively separate processes. Failure to do so may lead to financing GPGs through cuts in cuts in developmental assistance which is also essential for reasons unrelated to the GPG rationale.
 5. It will be critically important to the political and administrative feasibility of these instruments that a true consensus is built for their support. This implies an important role for a broadly consultative negotiating process that is extensive in scope and duration. It is easy to demonstrate that the loss in global economic growth and human welfare from the shortfall of GPGs greatly exceeds the loss from barriers to trade. *Thus negotiations for the provision of such goods should be conceived of as at least comparable in scale, scope, and duration to multilateral trade negotiations.*

III. **Four approaches to financing GPGs** that could succeed in the relatively near term.

A. **Charges on natural resource rents.**

1. Charges on resource rents are more likely to be accepted if the resources are not currently a base by national jurisdictions. However, there should be a strong and consistent message that a portion of any revenue or profit from the exploitation of natural resources or global commons should go to finance cost-effective efforts to preserve those resources and related (sometimes substitute) GPGs, and to maintaining such access to those resources as is required to meet basic needs (i.e. a lot for water, maybe not so much for geosynchronous orbits). It will probably be necessary to accept firm limits on such charges in exchange for adopting the principle that a portion of the income or sales of from resources that are a part of the global commons should be used to manage and preserve them and to finance GPGs.

- a. Immediate focus on charges on resources that are concrete and clearly international such as international waters, Antarctica, outer space, and the absorptive capacity of the atmosphere. Example might include:
 - i. Fish catches in international waters to finance fish conservation and management
 - ii. Trade in unsustainably produced commodities such as lumber to finance replanting and other sustainability programs
 - b. Increasing focus on potential of more abstract resources, such as the broadcast spectrum, geosynchronous orbital space, biodiversity and the human and non-human genomes
 - i. Charge on revenues from rental of genomic information to finance further research and to finance drugs and genome-related services for underserved populations, e.g. genomic research into tropical diseases.
 - ii. Charge on revenues from the broadcast spectrum to provide access broadcast to news, education on democracy and human rights information to underserved populations around the world.
 - iii. Charge on profits or revenues from non-agricultural use of plants and animals (i.e. not for food, fiber or fuel) to finance biodiversity preservation and research efforts.
 - c. Also for transboundary goods such as local air quality and watershed run-off.
 - i. Charges on water drawn from transnational water flows to finance an International Shared Waters Facility to promote water conservation, resource management and dispute resolution and provision of water rights to low-income and underserved populations
 - ii. Charge per ton on estimated transnational flows of pollutants to finance pollution reduction, management, and conflict resolution activities
2. Finally, there should be exploration of recognizing, as an application of the general principle that a portion of the revenues from global commons should go to preservation of those commons, that a small percentage of the revenues from our common heritage in the land should go to finance a broad spectrum of GPGs. Mechanisms for transferring such revenues might include a universal property tax surcharge of, say, a tenth of a percent of property tax revenues, or a small percentage, say one percent, of escheat of real property, in trust to finance GPGs rather than local states.
 3. These charges are more likely to succeed politically if the revenue from the payers is seen as having nexus to the to the harm the GPG avoids (fault) or to the value that the GPG provides (benefit). The latter is a particularly likely to be fruitful, and should be extensively explored. When charges go provide services that are of value to the industry or industries charged, they can sometimes be implemented with full or partial industry support. Examples include:
 - a. investing in the preservation of a GPG on which the industry depends, such as charges on fish catches for activities to produce a sustainable fish stock;
 - b. investing in development activities that expand industrial markets.
 4. This approach has little impingement on national taxing authority, because it is applied primarily to activities that are currently untaxable or at least untaxed. However, if a measure is perceived as a tax on the rich to benefit the poor, it is likely to fail. See, e.g., the long struggle over the deep sea mining provisions (Part IX) of the Convention on the Law of the Sea, which ultimately rejected strong language to the effect that such resources should be managed in trust for global wellbeing.
- B. Externality charges** on external costs imposed by extra-national, international & national activities.
1. As in the case of resource rents, it may be more feasible to implement charges on the external costs of extra-national activities because they do not intrude on sovereign taxing powers. To a lesser extent, this is also true of charges against international flows. Such charges could include:

- a. A charge on extra-national greenhouse gas emissions from international air and sea transport (aviation & bunker fuels) to finance activities that reduce greenhouse gas emissions, possibly though not necessarily limited to emissions from those transport operations.
 - b. Taxes or fees against international weapons trading to finance conflict-resolution and peacemaking activities.
 - c. Replacement of national tariffs on agricultural products with internationally harmonized excises with revenues targeted to controlling plant and animal pests and diseases.
 - d. Fines and asset seizures against international criminals and terrorists for international law enforcement activities.
2. Strongly support the creation of national externality charges and harmonization initiatives.
 - a. Support a wide range of international initiatives to encourage greater reliance on charges against external costs and resource rental values in national public finance systems.
 - b. For example, the EU carbon emissions trading system should be gradually transformed from a grandfathered to an auction- or fee-based system, such that all nations joining the trading regime would have a natural source of finance for activities to reduce emissions.
 - c. Support the position that border adjustments on those charges are allowed under international trade rules, and facilitate the exchange of information between nations to make such adjustments in a fair and accurate manner. This is necessary to assure both the effectiveness of the instrument and to prevent firms located in nations that do not adopt such charges from gaining an unfair competitive advantage over those that do.
 - d. Support the principle that a small portion, say 5%, of the revenues from national charges on activities causing international externalities should support international GPG agencies.

C. Benefit charges

1. Charges based on the benefit principle are most likely to get wide support from developed nations.
2. Many GPGs require investments in LDCs that are unable to pay for them, or unwilling to shoulder the entire burden given limited funds and other urgent public priorities. Where the source of finance is some form of voluntary contribution from developed nations rather than a dedicated revenue source, it is essential that the case for the monetary and non-monetary value of the GPG to the donor nation be made, and that some incentives to discourage free-riding is included.
3. Where substantial and identifiable benefits flow to identifiable nations or industries that have the ability to pay, the process should try to develop instruments that provide a dedicated source of revenue by allocating an appropriate share of the financial responsibility to those nations or industries. Where the fee on an industry is clearly less than the value of the GPG to that industry, such fees can garner industry support. Examples include the Connecticut Seed Oyster Tax used to restock oyster beds and reduce damaging pollutants, and the frequent practice of financing parks and recreational facilities with charges on benefiting industries such as public accommodations.
4. Another benefit-based approach to providing GPGs is to look for instances where private industry can finance GPGs as a cheaper alternative to some cost it would otherwise bear in the absence of public provision. Examples include taxes various U.S. states have placed, with the industry's consent, on underground motor fuel storage tanks to provide insurance against mandatory clean-up costs in the event of a leak. The Clean Development Mechanism under the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which allows firms to finance emissions reductions in the developing world as an alternative to achieving more expensive domestic emissions reductions, is an international example of the same sort of instrument.
5. This is an area where the scope for creative financing approaches is potentially very large, and such approaches should be actively sought. For each public good beneficiaries with the ability to pay should be identified and appropriate charges explored. Some examples might include:
 - a. Charges against export industries to finance developmental assistance which are less than their profits from the anticipated increase in exports induced by the assistance.

- b. A charge against the budget of national public health agencies that is less than their savings from avoided costs as a result of improved control of infectious diseases.
- c. Charges against multinational firms hiring highly skilled workers in developing nations to help defray the cost of educating those workers; and many more.

D. **Sale of product and services and private donor strategies.** There has been little efforts to raise money for GPGs from the sale of appropriate merchandise and services, or from private donors. The L20 leaders could exert important influence by publicly urging their citizens to support institutions that provide GPGs. If those institutions have prepared well-planned merchandising and donor strategies, the potential for revenue, though still far short of the need, could be substantial, as is demonstrated by the 1997 gift of a billion dollars to the United Nations by Ted Turner. Merchandising of products based on their identification with institutions that provide GPGs in turn serves to advertise the importance of the GPG, to help identify potential donors, and to induce purchasers to strengthen their commitment and to cause purchasers to identify its support. Such revenue sources could include:

1. Identity-forming materials such as logo/slogan mugs, cups, and t-shirts.
2. Voluntary contributions when buying externality-creating products, via, e.g. green credit cards.
3. Lotteries and other games of chance, with appropriate prizes such as eco-tourism vacations, low-emissions vehicles, or public appearances on behalf of the GPG.
4. Gift-giving opportunities linked to highly personalized results (“Provide food /education/health care for the family whose photo we are showing you).
5. Planned giving programs through bequests and the like.
6. Revenues from the licensing of a unified international programs of labels designed to support GPGs, such as for sustainably harvested timbers, sustainably managed agriculture, sustainably produced coffee and chocolate, fuels with carbon offsets already provided, etc.

IV. **A process and substantive agenda for the L20.** Given the complexities of policy design and negotiating strategy to build a consensus for effective and adequate mechanisms to finance GPGs, it may be more critical to develop an effective agenda and a consensus-building process than to craft draft proposals that may or may not survive subsequent political challenges. We suggest therefore that as much attention be paid to crafting process proposals as to crafting substantive proposals.

A. Before the first meeting of the L20

1. Recruit the Group of 60, a committee of respected and influential notables representing the L20 nations, with one participant from government, industry, and the NGO sector from each nation (or some smaller but comparable consensus-building institution). Adopt the rule that the group makes decisions by 2/3 majority from each of the respective government, industry and NGO contingents.
2. Charge the Group with preparation of a statement of common principles. As a first approximation, the statement should include the following ten principles:
 - a. A commitment to recognize that GPGs are vital and severely undersupplied, including a good list of GPGs.
 - b. A commitment to immediate doubling (or more if there is adequate consensus) of global annual support for GPGs without reducing development assistance funds.
 - c. A commitment to work together to create, within six years, appropriate financing mechanisms that are adequate and secure, distinct from the mechanisms used to finance developmental assistance, and based where possible on dedicated revenue sources.
 - d. A commitment to the principle that a portion of the value from the use of global common assets and natural resources should be devoted to financing international efforts to manage and maintain those assets and resources and related GPGs, and to assure access to those assets to meet basic needs, without undue interference with private efforts to develop those assets economically.

- e. A commitment to renewed effort to implement the market-based instruments to internalize externalities (or to implement the polluter-pays principle), and to the principle that a portion of the revenue from such instruments be devoted to financing international efforts to reduce those externalities.
 - f. A commitment to support and encourage efforts to raise funds through charitable gifts, private investments, and appropriate public enterprises.
 - g. A commitment to a joint research effort on the economic and social value, efficient provision and secure and adequate financing of GPGs.
 - h. A commitment to a process of identifying and/or creating international institutions adequate to the task of efficiently raising and disbursing funds for every key GPGs within three years.
 - i. A commitment to create and fund a small L20 Secretariat to manage and support the implementation of these commitments.
 - j. A commitment to establishing a process to assure that these goal are met, and to meet every other year to review progress toward meeting them and to overcome any obstacles on the path.
3. Raise funds for the salary and operating expenses of a small administrative staff and modest retainers for a larger group of academic advisors who would to assist the standing committees.
 4. Create working groups on financing GPGs with standing committees on revenues from (1) revenues from externality charges and resource rentals, (2) a wide range of benefit-based charging mechanisms, and (3) approaches based on marketing of goods and services, publicity for GPG-providing agencies, and fundraising from private donors.
 5. Initiate a research project, sponsored by the appropriate U.N. agencies, on the benefits to developed nations of GPGs that require investment primarily in developing nations, such as avoided health costs and risks from public health investments.
- B. At the first meeting:
1. Modify as necessary and adopt statement of principles.
 2. Receive reports of standing committees.
 3. Create parallel or replacement dialogue involving appropriate governmental agencies and a broader group of stakeholders.
- C. At or shortly after the first meeting:
1. Continue operation of standing committees.
 2. Designate for each category of GPG one or more lead agencies charged with raising money from public and private sources, educating the public on the need for the GPG it supports, allocating money to provider groups in a fair and efficient manner, and monitoring and reporting on the effectiveness of provider groups receiving grants. Possible models of such agencies include the Global Environment Facility and the Global Fund to Fight AIDS, Tuberculosis and Malaria.
 3. Develop a plan for leader support of fund-raising efforts by the designated lead agencies.