

Possible elements of a 2006 L 20 Communiqué on the Financing of Global Public Goods

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The focus of the latest meeting of the L20 was on issues and challenges associated with the financing of what are called Global Public Goods (GPGs). It was deemed timely and appropriate that our group should address this subject as it is fast becoming a centre stage issue of the international political economy of the 21st century.

The L20 **observed that** the first five years of the new century have brought about a virtual explosion in political and social pressures to finance a wide range of new initiatives in the name of GPGs. We examined carefully the shifts that have occurred as a result of these pressures. For example, a direct consequence of the recent prominence of GPGs has been that nearly a third of official development assistance now flows through global and regional programs rather than through the country-focused programs that have been the mainstay of traditional aid donors.

We **were impressed by** the number and range of new partnerships that have emerged from the impetus to finance and provide GPGs. In the health field, for example, the past few years have given rise to the Global Fund for AIDS, TB, and Malaria (GFATM or the Global Fund), which has committed \$4.4 billion in 128 countries; the Global Alliance for Vaccines and Immunization (GAVI), with \$1.5 billion in commitments in 72 countries; the Global Malaria Prevention and Control Program; and Stop TB. Numerous other initiatives in the name of GPGs have emerged or are fast emerging. These cover a vast field, including – to name only a few – peace and security, biodiversity and the environment, international trade, economic infrastructure, social protection, access to knowledge, control of communicable diseases and financial stability.

We agreed that:

- This trend will continue and should be expected to accelerate. It is a direct consequence of the socio-political reality of our increasingly interconnected and interdependent world.
- New arrangements and entirely new forms of international collective action will be required if we are to address successfully the range and the complexity of today's global challenges. This can be done only through partnerships of bilateral and multilateral actors, private foundations, and civil society organizations and through new collective action arrangements.

But we are concerned by:

- The extent of ambiguity on what constitutes a global public good and by the many disagreements on how to define and reach political consensus on what qualifies as a GPG and, where there is consensus, on how to finance the provision of such a good. In individual nation-states, to reach political consensus on what is a national public good and how it is to be provided and financed has always proved challenging and difficult. This is compounded many times over in deciding on a global public good, for this must take into account differences among countries in the degree of development, access to information and technology, and social choices. This has been further compounded in recent years by the rapid pace of intellectual production and of policy shifts in relation to issues such as HIV/AIDS, peace and security, and climate change, among others, which bear directly on the conception of global public goods and their financing.
- The inadequacy and unpredictability of financing for GPGs. The GPG initiatives launched over the past few years are financed almost exclusively on a short-term, voluntary basis. It is at least partly because of this situation that the spread of HIV/AIDS continues and is increasing, that malaria is becoming more widespread and is migrating to temperate zones, and the indicators of pernicious consequences from climate change grow ever more alarming. A multiplicity of institutions are involved in international development finance but, considered as a whole, they are not up to the task of providing the secure, adequate and predictable financing required to assure the provision of the goods that have already been declared GPGs, let alone respond to new and increasing demands. Our current institutional arrangements for financing GPGs are characterised by a lack of overall coherence, by policies that are in conflict and that cancel one another out, by a deficit s in the delineation of mandates.

We are convinced that the international community needs to take urgent steps to examine these problems fully, carefully and dispassionately and to achieve a new and enduring political consensus on the way forward. We are further convinced that success in the longer term will depend not only on new political arrangements to define and agree on what to provide as GPGs but also on new regimes of equitable burden sharing through instruments of international taxation. In our view, the magnitude of the challenges confronted means that we must develop alternatives to continuing reliance on the current, heavily overburdened and stretched fiscal frameworks of OECD countries.

We understand fully and appreciate the deep concerns, divisiveness and contestation that attach to the subject of international taxation. Yet, while new financial instruments based on different types of international taxes and charges for the use of the global commons have been proposed for decades, there has been relatively little systematic examination of these and even fewer careful reviews that have engaged all relevant stakeholders. We have concluded that not nearly enough is known about the positive and negative potentials of different proposals and that this should be rectified as an essential pre-condition to informed debate and policy review.

Thus, **we wish to leave no doubt**: we do not propose at this time a specific new international taxation regime. What we do propose is that the required background and analytical work be done to permit informed, thorough and dispassionate examination of the different components and alternatives that could make up such a regime.

Among the financial instruments that would merit such careful study and review would be: (i) the *creation of international tax regimes*, and (ii) *fees, charges or assessed contributions for the use of global or international commons*, such as charges for the use of land, space and the oceans; levies on the extraction of natural resources; and fees or auction revenues on the use of geostationary orbits to place satellites.

Most of the ideas put forward under the above categories have been specifically linked to GPGs in the sense that they seek to obtain resources to finance the provision of a public good or the prevention of a public bad, or that involve taxing the utilisation of what is considered as a global resource or infrastructure. They include, among others: (i) *a carbon tax or a tax on the use of energy*, which involves taxing the carbon content of different fuels and energy sources, and could reduce CO₂ emissions, promote the use of cleaner energy and generate resources of environmental protection and for development purposes; (ii) *taxes on the transmission of data and information through the Internet*, which involves a small tax on transactions through the telecommunications networks that support the Internet; (iii) *taxes on foreign exchange transactions*, in particular the ‘Tobin tax’ on currency transactions, which could both dampen speculation in foreign currency markets and generate resources for strengthening reserves and financing development programmes; and (iv) *taxes on the international weapons trade*, which could both reduce the level of trade in arms and raise money for development programmes, disarmament initiatives and the compensation of victims of violent conflicts.

We have concluded that debates on ideas such as these have hitherto suffered from inflated claims of both costs and benefits and that this has led to unnecessary and unfortunate polarisation. It is essential to the interests of the 21st century and to the growing interdependence of the nations and societies of the world that this should be rectified through disinterested analysis and systematic review in neutral fora. At present, for example, even the potential amounts that these tax schemes could generate remain quite uncertain even at exceedingly low marginal rates of taxation. The estimates that have been generated are generally crude and based on single assumptions. Thus, in one calculation, a tax on fuel consumption (at 2002 average prices) of US\$0.048 per gallon (which corresponds to about US\$21 per metric ton of carbon) would yield about US\$130 billion annually. Another calculation from 1996 of a bit tax of US\$0.01 per megabyte of information transmitted through the Internet concludes that about US\$70 billion in revenues would have been generated. A calculation in 2000 of a Tobin tax with a rate of 0.02 percent of currency transactions suggested that US\$53 billion in revenues would be produced. And a calculation by the US Department of State in 2003 applying a tax of 5 percent on the global sales of arms suggested a revenue generation of about US\$2.5 billion per year.

As in the case of international taxes, only quite crude and static work has been done to date in producing estimates of amounts that could be obtained from fees, charges or assessed contributions for the use of global commons. For example, in the case of the electromagnetic spectrum, 90 per cent of the use rights have been assigned to the richest countries: these allocations could be accompanied by small surtaxes for international purposes, as is done in the US, but even simple algorithms have yet to be produced that would help policy makers and other stakeholders to reach informed judgments on the costs and benefits.

Given this situation, therefore, **we have reached unanimous agreement that we, the L20, will take immediate steps to:**

- Establish a Task Force of 20 members constituted from leading scholars, political analysts and policy makers drawn in equal numbers from OECD and non-OECD countries.
- Commission through the Task Force, a comprehensive range of studies on all major proposals for both international taxes and fees and charges for the use of the global commons and the potential of these to ensure the production and financing of GPGs. These studies, which are to be commissioned from the most respected public policy ‘think tanks’ in the world will be conducted under conditions of complete independence and charged to produce rigorous analyses of alternatives, of potential costs and benefits, and of advantages and disadvantages. Given the urgency of the current situation with regard to GPGs, we will require that the studies be completed and their results submitted to the Task Force before the end of October 2006.
- Based on its examination and critical review of the results of this rigorous and fully independent study, the Task Force will then reflect on substantive, empirical issues and on the more intractable issues of political desirability and feasibility, as well as on organisational and institutional prerequisites and requirements. The Task Force will produce by the end of 2006 an ‘Issues and Recommendations’ paper for consideration by the L20.
- An international public consultation will follow, based on the ‘Issues and Recommendations’ paper which will be made available universally. We, the L20, will ensure adequate financial support for full, transparent and independent examination and feedback through a series of national, regional and trans-national workshops that will aim to include the broadest possible cross section of interests and stakeholders. These consultations will be undertaken over the period January-April 2007.
- The meeting of the L20 in June 2007 will review the full range of results and recommendations emerging from the above processes, will reflect on the issues arising and will determine what, if any, specific policy recommendations it will

champion, recommend and support as new mechanisms and instruments for the financing of GPGs.