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Saving the United Nations: A global tax on international financial transactions?

by Steven Dale



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The miracle of high speed telecommunications has enabled players in world financial markets to transfer billions of dollars between countries with a few computer keystrokes, creating bonanzas for speculators but terror for nations whose economic plans can be wrecked by sudden, dramatic outflows of capital. And while an estimated \$1.3 trillion in foreign exchange transactions moves across the globe each business day, United Nations agencies that provide social services still go begging for funds.

Can global capital flows be taxed to generate revenue for these agencies? That was one of the main questions at a recent roundtable in Ottawa on global financial transformations and the United Nations system. Held at IDRC, the event was sponsored by the National Capital Region Branch of the United Nations Association in Canada.

Roundtable chair, Caroline Pestieau, Vice-President for Programs at IDRC, said the notion of such a tax raises several practical issues including the type of surveillance, disincentives and controls required to deal with financial surges. She noted that shifting capital can be especially devastating for the South, which

requires economic stability but is rarely able to refuse foreign capital.

Coping with shifting capital

One solution, adopted by countries such as Chile, Columbia and Malaysia, is to apply controls on incoming investment to discourage the short-term parking of capital. The European Union, meanwhile, is banking on a single continental currency to bring more stability to exchange rates.

Other schemes, like the Tobin tax — named after the Nobel Laureate in Economics, [James Tobin](#) — attempt to deal with market volatility by increasing the costs of currency speculation. designed to "put sand in the wheels" of the global money machine, Tobin's proposed tax on international financial transactions could also raise revenues for international agencies such as the UN.

Pestieau asked panellists whether these two goals are contradictory. "What immediately comes to mind is the situation with tobacco taxes," she said. "Do you want to raise money or do you want to stop smoking? And can you do both at the same time?"

Improved cash flow, not tighter spending

With respect to the United Nations financial crisis, speakers agreed that the solution is improved cashflow, not tighter spending. "Contrary to what we hear from certain quarters, the UN's budgets are not spiralling out of control," stressed [Sam Hanson](#), counsellor at the Canadian Permanent Mission to the UN in New York. The original budget appropriation of US\$2.608 billion for 1996-97 was less than the appropriation for the previous year and it has since been lowered to US\$2.602. And the preliminary estimate for 1998-99 further reduces the UN's budget to US\$2.48 billion.

Hanson concluded that "the UN's financial crisis is due to lack of funds because collections are not equal to assessments." Member states agree on what they should pay, but then they don't pay. By January 1996, for example, only 25 of 185 countries had honoured their assessment in full. Only 2 of the 25 were members of the G-7 and none were members of the Security Council.

But the question remains whether new international levies — such as the Tobin tax or an international carbon tax — would solve the UN's funding crisis, making it easier to maintain peacekeeping, health and education programs around the world. Such an approach raises some practical issues, said Hanson. For example, "would you need a new bureaucracy to levy the tax, or would national governments be willing to levy UN taxes on their own citizens?" he asked. "And what policing powers would the global tax collectors require to deal with tax evasion?"

Tax won't dampen speculation

[Alan Gill](#), Alternate Executive Director for Canada at the [Inter-American Development Bank](#) in Washington, said that a financial transfers tax is unlikely to dampen financial speculation, since in this type of activity "you do get quite a bit of momentum," which a small surcharge is unlikely to curb. [Morris Miller](#), formerly the executive director for Canada, Ireland, and the Caribbean at the World Bank and now an adjunct professor at the University of Ottawa, added that technical problems should not deflect attention from the need for new social revenues.

Miller described the crisis in UN funding as "a second order problem" arising from the more fundamental matter of increased income polarization, which has occurred in the face of a two-and-a-half fold (in real terms) growth in incomes worldwide since World War II. Despite this, a billion people live on less than a dollar a day and the income gap between rich and poor has grown dramatically in the past decade.

Collecting rent on the global commons

"We have a world that is obscenely unequal, unfair and immoral," he said, adding that the world has an obligation to provide for the desperately poor by "charging rent on the global commons, which all of us own." Vast fortunes have been made by financial speculators and communications companies that transmit signals through the atmosphere, and by companies that ship products across oceans. According to Miller, taxing the global commons is the only way the world can assert its ownership of those resources and "collect the economic rent for humanity."

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Sidebar

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References

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Alternative Funding for UN Development Programs

Reforming the funding mechanisms for UN agencies involved in development work would provide more stability and democratic decision-making, says Roger Ehrhardt, Director-General of Multilateral Technical Cooperation at the [Canadian International Development Agency](#).

There are 18 development-oriented funds and programs in the UN system, including the United Nations Development Program (UNDP) and the United Nations High Commission for Refugees (UNHCR). Unlike specialized UN agencies, such as the World Health Organization (WHO) and the United Nations Educational, Scientific, and Cultural Organization (UNESCO), development-oriented funds and programs are paid for through voluntary financing, rather than assessed contributions. This has created several problems:

- overdependence: the funds and programs rely heavily on some 10 countries that provide 80-90% of their budgets through voluntary contributions. Many Southern nations perceive that these UN agencies are dominated by big donors from the North. Such dependency has also led to financial insecurity. For example, the UNDP's budget declined dramatically in 1996 when the United States reduced its contribution.
- instability: the voluntary nature of funding has caused some programs to suffer larger budget cuts than the UN system's specialized agencies.
- fragmentation: the tendency of donors to provide extra funding through "multi-bilateral arrangements," where a group of countries supports specific projects, makes it difficult to construct overall priorities for the funds and programs.

To address these concerns, several recommendations have been made. Among the ideas under consideration by the UN Secretary General include taxes on non-renewable resources, credit card use, air travel, financial market transactions, and/or access to the Internet; and an increase in private sector contributions. Some Southern countries have pitched a two-pronged approach in which the administrative and management costs of social and developmental UN funds and programs would be financed from assessed contributions; and voluntary contributions would be eliminated as new mechanisms for raising money through taxation are phased in. Meanwhile, Nordic countries have proposed a three point plan in which assessed contributions would cover administrative costs; negotiated, longer-term pledges would be introduced; and voluntary contributions would continue. The Nordic plan does not mention new taxes as a funding instrument.

Stephen Dale
