Financing International Cooperation: An Immodest Proposal

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This paper has as its rather immodest intent the formulation of a proposal for modifying the existing international economic order. I propose to describe a system which approaches in a unified manner the questions of inadequate foreign aid flows, insufficient control of the operations of multi-national corporations, and the limited funds available to the United Nations system. What follows may be regarded by some readers as a utopian proposal, but it is my view that it is less visionary than pleas to the governments of the industrialized countries to voluntarily contribute annually one per cent of the value of their product to the developing countries.

Institutional Inadequacies

Before describing my scheme I should like to very briefly summarize the all too familiar inadequacies of present institutional arrangements for dealing with foreign aid, multi-national corporations, and United Nations finances.

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Foreign Aid. Foreign aid flows are notoriously insufficient and unevenly distributed globally. The bulk of the aid which is provided is bilateral in nature and its characteristics often reflect the national interest of the donor, which may diverge sharply both from the national interest of the recipient and from cosmopolitan interest. Official aid disbursements stagnated during the first Development Decade, the 1960s, and prompted the Pearson Commission on International Development to pessimistically observe:

> The question which now arises is whether the rich and developed nations will continue their efforts to assist the developing countries or whether they will allow the structure built up for development cooperation to deteriorate and fall apart.
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> The signs are not propitious.[1]

Most of the numerous proposals which have been advanced for expanding multilateral aid flows have focused on quantitative policy changes designed to increase the magnitude of aid flows while leaving the international organizational framework largely unchanged.[2] These recommendations basically aim at increasing the payments made by the governments of the rich nations to supra-national bodies, which, in turn, make grants or loans to the poor nations. The "spirit of

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[1] Commission on International Development, Partners in Development (New York: Praeger Publishers, 1969), p. 4.

[2] For one exception, which is, however, heavily reliant on what may be termed "gimmickry", see Albert O. Hirschman and Richard M. Bird, "Foreign Aid -- A Critique and a Proposal", no. 69 (July 1968.)

disenchantment" with development assistance encountered in a number of rich countries by the Pearson Commission[3] suggests that a new approach, one involving a qualitative policy change, may be desirable.

The Multi-National Corporation. The growth and integration of the world economy has been accompanied by and, to a certain extent, related to the growth in number and size of business enterprises with operating units in two or more countries. The existence of multi-national corporations extends to the international level the effects of oligopoly market structures. Many countries have the mechanisms for controlling in some measure domestic oligopolies, but are singularly ill-equipped to deal with the foreign-owned, multi-national oligopolist. As Stephen Hymer has pointed out:

> Multinational corporations, because of their size and international connections, have a certain flexibility for escaping regulations imposed in one country. The nature and effectiveness of traditional policy instruments, monetary policy, anti-trust policy, taxation policy, wage and income policy, change when important segments of the economy are foreign-owned.[4]

Some of the less developed countries are literally dwarfed in their dealings with multi-national corporations, whose annual products

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[3]Commission on International Development, p. 4.

[4]Stephen Hymer, "The Efficiency (Contradictions) of Multinational Corporations" (mimeographed, Jan. 1970), pp. 19-20.

are frequently greater in value than the products of the countries themselves. Multi-national corporations are often accused of contributing to an international backwash effect through their global portfolio management practices and of offsetting development aid by large remittances of income on direct investment. But it is not only the less developed countries or, more generally, the countries in which subsidiaries are located which experience periodic setbacks as a consequence of the global juggling of assets by the multi-national corporations; the home country itself is not immune, particularly if its currency is weak.[5]

At present international cooperation to deal with the excesses of the multi-national corporations is too limited to be of consequence. Clearly, institutional changes are needed if the present policy vacuum which exists with respect to the operations of international oligopolists is to be filled.

Finances of the United Nations. Logically the United Nations is the organization which should be charged with creating a mechanism for dealing with international oligopoly, but it is so constrained by its limited budget that it is often ignored when solutions are sought for this and other problems requiring global action, such as international control of resource exploitation and of environmental degradation.[6]

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[5]Charles P. Kindleberger, American Business Abroad (New Haven: Yale U. Press, 1969), p. 183.

[6]The noted diplomat George F. Kennan has proposed the creation of an International Environmental Authority, which would be a voluntary

The recently complete Jackson Report describes the symptoms the United Nations displays:

> Today, the UN system seems to be a disproportionately old and bureaucratic organization. Many governments, steeped in much longer traditions, are far more progressive and ready to respond to modern conditions. [7]

It may be argued that financial difficulties are more responsible for the lack of dynamism of the United Nations than is political factionalism. Severe budget constraints tend to have a disruptive effect at whatever level they occur, be it the case of an individual, an organization, or a political jurisdiction. One need look no further for examples of this principle than to the universities whose budgets have been reduced as part of an anti-inflationary drive. In the case of the Untied Nations, the problem is even more acute; the funds available to it probably fall short by some multiple of the level necessary to discharge adequately the tasks which it is assigned. Two examples should suffice: the regular budget of UNESCO in 1965 was equal to only six-tenths of the amount spent in the same period by the Canadian federal government on Indian and Eskimo schools alone. The regular budget of the United Nations system (excluding the World Bank Group,

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association composed of the industrial nations. "To Prevent a World Wasteland: A Proposal," , XLVIII (April 1970), 401-413.

[7] United Nations, <u>A Study of the Capacity of the United Nations Development System</u> (Geneva: 1969), vol. I, p. 49.

the IMF, and GATT) in 1965 was roughly equal to the revenues (although only eight-tenths of the expenditures) of the the government of Ceylon.

Not only are the revenues of the UN meager, but continuity in their flow is by no means assured:

> Finance presents a sombre picture. With the exception of the International Monetary Fund and the World Bank group, no major world or regional organization has an assured revenue; all of them have substantial continuing commitments; few of them have substantial and none, by the most modest standards, adequate reserves; the United Nations has a large deficit. Any major world or political crisis could, by cutting off resources, destroy overnight virtually the whole of the existing structure of world organization.[8]

Financing International Cooperation

In order to expand the financial resources of the United Nations and, in consequence, its capacity for action I propose that it should undertake the taxation of its constituents. Just as the constituents of national governments are both its de facto and de jure citizens and not its political subdivisions; so one could regard the constituents of a global authority to be the citizens of the world as well as or instead of

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[8] C. Wilfred Jenks, The World Beyond the Charter (London: George Allen and Unwin Ltd., 1969), p. 158.

the governments of the individual nations. Rather than relying solely on the voluntary payment of annual quotas by member nations, I suggest that the United Nations seek the authority necessary to enable it to levy taxes on those individuals who benefit most directly from the existence of a relatively stable international order.

The idea is not a new one. In 1942 C. Wilfred Jenks briefly suggested the possibility of taxing business activity across national boundaries in order to provide financing for international cooperation which would be independent of national control.[9] Jenks' idea was ahead of its time when stated over one-quarter of a century ago. Today that principle require restatement and elaboration; its time has arrived. The terms global village and spaceship earth are recent additions to our vocabulary which are already familiar to most of us. These terms not only express in a succinct manner the growing integration of the world community, but also convey the need for dealing with many problems from a global perspective.

Precedents already exist for taxation by supra-national authorities. The European Coal and Steel Community is empowered to levy taxes on the value of production of coal and steel, [10] while the

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[9]Jenks, "Some Legal Aspects of the Financing of International Institutions," Transactions of the Grotius Society, XXVIII (1942), 92. See also T.A. Sumberg, "Financing International Institutions," Social Research, XIII (Sept. 1946), 301.

[10]Irving B. Kravis and Michael W.S. Davenport, "The Political Arithmetic of International Burden Sharing," Journal of Political Economy, LXXI (Aug. 1963), 311.

members of the European Economic Community have recently agreed to the gradual establishment of direct community revenues from customs duties.[11]

Theoretical justification for international taxation is provided by extending to the global level the arguments contained in the literature on fiscal federalism.[12] The goals of international income redistribution, global provision of merit wants, international income stabilization, and international fiscal equalization are in theory best served by economic policy decisions, including taxation and expenditure decisions, made at the highest possible level.

As Jan Tinbergen has pointed out in regard to the external effects of policy decisions to be taken by a country or a group, "If these external effects are considerable, then the decision should be taken at a higher level -- the matter should be taken to a level that is just high enough for the external effects to be negligible."[13] Bilateral foreign aid and United States' balance of payments guidelines are examples which readily come to mind of national policies having substantial external effects. When ramifications of policies are international, the optimal decision is not likely to be reached by a

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[11]The Economist, CCXXXV (April 25, 1970), 36.

[12]See Albert Breton, "A Theory of Government Grants," Canadian Journal of Economics and Political Science, XXXI (May 1965), 175-87.

[13]Jan Tinbergen, Development Planning (London: Weidenfeld and Nicolson, 1967), p. 193.

national administration responsible to a national parliament, which is, in turn, responsive to national interests.[14]

International economic objectives are likely to be well served only if adequate financing is available to international organizations to permit them to undertake necessary programs. To provide the funds required, on a continuing basis, I should like to suggest that the UN be empowered to levy the following taxes on its constituents (hypothetical rates are suggested for each tax as well as an estimate of the proceeds which would have been raised had these taxes been in force in 1965):

1. A tax on foreign trade. A one per cent tax on the c.i.f. value of imports of the countries belonging to the International Monetary Fund would by itself have provided the UN with $1.75 billion, more than four times the regular budget of the UN in 1965.

2. A tax on private international capital movements. A one per mil tax applied to gross transfer payments,

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[14]Tinbergen, Shaping the World Economy: Suggestions for an International Economic Policy (New York: Twentieth Century Fund, 1962), p. 111.

remittances of investment income, and capital flows would have provided at least $40 million to the UN.[15]

3. A tax on international travel. A one per cent tax on the value of international travel would have provided at least $100 million to the UN.[16]

4. A tax on the global profits of multinational corporations, regardless of whether they are remitted. A one per cent tax on the profits of multi-national corporations would, making a very conservative guess, have provided a minimum of $150 million to the UN.[17]

Together these proposed taxes would have provided the following additional revenues to the UN in 1965:

		Million US$
Indirect taxes	(items 1,2,3)	1,890
Direct taxes	(item 4)	150
Total		2,040

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[15]Based on data appearing in John S. smith, "World Summary of International Transactions, 1961-66," (IMF) Staff Papers, XVI (March 1969), 88-91.

[16]*Ibid*.

[17]In 1966 the net income after taxes of the 500 largest U.S. industrial firms was $22.1 billion; one per cent of which is $221 million. Fortune, LXXV (June 15, 1967), 196.

Which may be compared with:[18]

UN and Specialized Agencies, Regular budget (excluding Bank Group, IMF, & GATT)[19]	391
Multilateral Development Assistance[20]	439

The taxes and rates proposed would have increased five-fold the funds available to the UN system in 1965.

It is not the particular magnitudes cited here which are of significance, as they result from rates arbitrarily set at levels intended to be sufficiently low to have as little effect as possible on patterns of consumption and investment. That which is significant is the institutional change recommended, a change which would free the UN from financial dependence on a handful of rich countries and which would assure the UN of revenues which would expand in step with the growth and integration of the world economy.

The tax rates and the mix of taxes suggested are well suited to what would be a transitional period in the life of the UN. Reliance on indirect taxes is characteristic of the early stages in the public finance of most jurisdictions as such levies pose fewer administrative

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[18] The figures are not additive as they have some common components.

[19] United Nation, vol. II, appendix 6, table 4.

[20] Commission on International Development, p. 378.

difficulties than direct taxes. As expertise in tax collection is developed by the UN it can gradually shift to dependence on direct taxes. The taxes which I have recommended should be introduced gradually to facilitate the phased expansion of the activities of the UN.

One of the tasks of the transitional period would be to determine the specific goals of international public finance and to design taxation and expenditure patterns which would conform to those goals. Further study might suggest, for example, that in the interests of international redistribution of income the structure of international taxes should be moderately or perhaps even steeply progressive. Perhaps multi-national firms operating in tax havens might be subject to higher rates of international taxation in the interests of fiscal equalization.

While taxation by the UN might be limited at first to activities crossing national boundaries, once the principle of international taxation is firmly established, the logical extension would be to tax transactions occurring and/or income generated within a sovereign nation. A committee headed by Tinbergen has already proposed that a five per mil tax on the value of selected consumer durables be levied to increase the funds available for development finance. [21] It should be emphasized that this represents nothing more than an extension of federal principles to a global level. All Canadians, whether residents of, say, Nova Scotia or British Columbia, pay federal sales and excise taxes. Similarly, everyone, regardless of his country of residence, could be subject to a global sales tax.

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[21] The Montreal Star (Feb. 23, 1970), p. 4.

International Income Redistribution

The goal of income redistribution both from rich nations to poor nations and from the rich to the poor within nations can be served by both the taxation and expenditure policies of the UN. The taxes discussed above would tend to fall primarily on middle and upper income groups in both the rich and poor countries. This is in sharp contrast to most foreign aid proposals which require no financial contribution from the elites of the poor countries. Indeed, the elites of many of the poor countries contribute little to their own governments for purposes of development, as a consequence of low tax rates and/or inefficient tax administration.

On the expenditure side the expanded revenues received by the UN could be used to enlarge the diverse operations of the UN system, to expand the flow of low interest development loans, and to provide matching grants to developing countries in order to allow them to increase the provision of public services satisfying merit wants.

The matching proportion in the provision of grants for merit wants could be related to the degree of existing deficiency in the provision of services to meet those wants. In the case of education, countries with, say, 80 per cent illiteracy or more might be allocated three dollars by the UN for each additional dollar they spend on particular kinds of educational expansion; while countries with, say, 20 to 40 per cent illiteracy might receive only one dollar for each additional dollar spent by them.

One would expect that bilateral aid would continue to coexist with multilateral aid as it does today, although the magnitude of bilateral aid might tend to diminish. The UN, in allocating grants and loans, might wish to consider offsetting imbalances in the pattern of official capital flows for development that result from the preferences of national donors by favoring those of the poor countries that are relatively neglected by bilateral aid.

Viewing expenditures on international income redistribution as a function of international public finance puts it in a different perspective. It transforms international income redistribution from an act of charity to a principle of community responsibility, just as income redistribution has long been viewed at the national level. [22] It also suggests to us that rather than being a function whose duration is limited, international income redistribution is likely to continue beyond most of our lifetimes, just as expenditures related to income redistribution are likely to continue for many years to come <u>within</u> the rich nations of the world. Self-liquidating, crash programs for low income countries involving massive injections of public and private foreign funds may produce a few "showcases", but they are not likely to contribute much to the growth of the poor countries as a group. Design of UN policy will have to based not on short or medium term national development goals, but on the long term goals of global development and of global balance. Enduring mechanisms will have to be developed for this purpose, not institutions intended for dismantling after a decade.

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[22] Jenks, <u>The World Beyond</u>, p. 160.

International Incorporation

The Pearson Commission recommended "The eventual creation of a system of international incorporation of companies doing business in more than one country" as a long run solution to the problem of extraterritoriality, i.e. "the intrusion of the jurisdiction of one country into that of another."[23] I view international incorporation of multi-national firms as a measure which would greatly facilitate both taxation of these firms and effective regulation of international oligopoly. It is, in part, the very taxes that I have proposed that would provide the UN with the capacity to regulate internationally incorporated firms. From the standpoint of the UN, international taxation, international incorporation, and international regulation of multi-national enterprises may be regarded as forming a mutually reinforcing system.

If necessary, international incorporation could proceed by stages as the UN gradually expands. In the initial stage perhaps only those firms holding, say, fifty per cent or more of their assets outside of their country of citizenship would be required to incorporate internationally. Eventually international citizenship could be extended, perhaps as C.S. Burchill has suggested, to all firms with ten per cent or more of their assets outside of their country of citizenship.[24]

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[23] Commission on International Development, p. 107.

[24] C.S. Burchill, "The Multi-National Corporation: An Unsolved Problem in International Relations," Queen's Quarterly, LXXVII (Spring 1970), 13.

International incorporation of multi-national firms might serve not only the interests of the world community, but also the interests of the corporations themselves. Charles Kindleberger has suggested that some multi-national firms maybe "getting the worst of all possible worlds by being penalized everywhere" through double taxation, balance of payments restrictions, and anti-trust applications.[25] International incorporation might lead to unified, consistent rules of the game for multi-national firms. Companies whose investment decisions have been seriously affected by United States' balance of payments guidelines might actually welcome receipt of an international charter if it were to free them from the constraints to which they are presently subjected by the U.S.

Feasibility

Implementation of the proposals which I have described would require the voluntary cooperation of the member nations of the UN. Not only would the assent of the various national parliaments be required, but the fullest cooperation of the administrative personnel of each country would have to be enlisted to facilitate collection of both direct and indirect international taxes.

The Pearson Commission has suggested international incorporation for all firms doing business in more than one country. Commission on International Development, p. 107.

[25]Kindleberger, International Economics (4th ed.; Homewood: Richard D. Irwin, Inc., 1968), p. 404.

International incorporation would also require either the acquiescence of member states or the acquiescence of the enterprises concerned. As previously suggested, a number of multi-national firms which are citizens of the United States might welcome international incorporation. The U.S., however, might be the most strenuous opponent to international incorporation as a potential threat to its balance of payments situation. Should a *quid pro quo* be necessary, the UN could offer, through the I.M.F., to lend support to the U.S. balance of payments for a limited transitional period of, say, five years.

It is difficult a priori to anticipate the reaction of the nations of the world to the proposals offered here. One would imagine that the most favorable reaction would be among the poor nations. If each nation were to regard the benefits to itself of increased world stability and of regulation of international oligopoly to be greater than the costs (real or imagined) of sacrificed sovereignty, then the prospects for these proposals would be excellent.

Feasibility is a relative quality. It is not one that is static and unchanging, but is a quality that may vary substantially over time. The making of a proposal is the first step in the direction of feasibility. The scheme described above is probably unacceptable today, but to the extent that it is widely discussed and debated, attitudes toward it may tend to change.

Conclusion

The proposals which I have offered, far from being utopian, may be regarded as representing logical extensions to the international level of principles already operative in many of the world's nations. I have offered an array of imperfect, half-way measures designed for a transitional stage, rather than a grand design, in the hopes of facilitating implementation, as opposed to presenting an idle, intellectual exercise.

Our proposals, if implemented, would lead to a strengthening of the UN system and, in turn, to greatly expanded and coordinated assistance to developing countries, to a more orderly international economic environment, and perhaps as well to a lessening of political tensions, and ideally to world peace. For as Bertrand Russell observed in 1934: "It is not by pacifist sentiment, but by world-wide economic organization, that civilized mankind is to be saved from collective suicide."[26]

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[26]Bertrand Russell, Freedom and Organization 1814-1914 (London: George Allen & Unwin Ltd., 1934), p. 510.