Global Public Finance and Funding the Millennium Development Goals

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1. Global Public Finance

Our global responsibilities, and the pressing need to fund the Millennium Development Goals (MDGs), provide the *policy focus* for my lecture, as I explain more fully in the next section. The *intellectual focus* is summarised by the term 'global public finance'. One of the two main themes of this lecture is that a new branch of economics is developing – global public finance – combining different existing fields. The subject of global public finance will, I hope, increasingly appear on the curricula of university economics courses. The material will of course draw on existing branches of economics, but it will be directed at a specific set of policy issues. The second main theme of the lecture is that global public finance can contribute to the analysis of key policy issues and provide new insights.

What are the ingredients of this new subject? The first is clearly *national public finance*, a subject that broadened in the 1970s into public economics. But it remained a largely national subject. I plead guilty here myself. The graduate text that I wrote with Joe Stiglitz, *Lectures on Public Economics*, failed to address international issues. This shortcoming was perhaps less apparent in 1980 when the book was published, but today a course in public finance should, I believe, begin from page 1 with an open economy, where the impact of taxes and government spending are considered in a context of international competition and factor movements. The incidence of a tax on income from work depends in part

on the extent of labour mobility across borders, and this is even more the case for taxes on capital income and taxes on corporations. This has far-reaching implications. It means too that the economic models employed have to allow for the movement of goods, capital and people. We have to consider behavioural reactions in terms of not just how hard to work, or how much to save, but *where* to work and *where* to hold one's savings.

Analysis of the geography of economic activity is the centrepiece of a second old-established field of economics: international economics. Public finance economists need to borrow from their analytical armoury. In this we are helped by the fact that the general equilibrium tradition of international trade theory is one that fits naturally with public economics, and that the long-standing policy issues, such as the transfer problem (to which I return below), have much in common. But international economics too has to borrow from other fields, a prime example being the economics of growth and development.

However, we do not just need to extend our analytical model to an open economy. We have also to take account of the divided political structure. Whereas for the purposes of national public finance it may be sufficient to posit a single political authority, in a global context we have to recognise the existence of diverse political entities with differing, possibly conflicting, objectives. (The same of course applies in research on federal or local governments.) This means that we cannot escape studying political economy, or how governments make fiscal and other decisions. The fact that the impact of a tax on earnings in the Netherlands depends on decisions as to whether to work here or in Belgium means that we have to consider the determination of the tax rates in Belgium. It is possible that Belgian tax policy is uninfluenced by the tax rates set in The Hague, but they are likely in practice to be interdependent. It is seldom made explicit, but in an interdependent world, the positive analysis of tax incidence requires an input of political economy.

The global setting means, finally, that the basis for *normative* public finance has to be reconsidered. The standard approach to evaluating different fiscal policies assumes that the interests of all citizens enter that evaluation symmetrically. In a modern democracy, all count equally, and if you and I are in all relevant respects identical (we have for example the same number of children), then interchanging our economic circumstances should not change the social valuation. But does this carry over to a global situation? On one view, that of global cosmopolitanism, the

answer is 'yes': all world citizens enter symmetrically in to the social welfare function. This is an attractive view, but not one that is universally, or even widely, held. Indeed more widely held is the opposite extreme where the evaluation of policy considers purely the national interest. In between are those who, for various reasons, including a view about agency, give weight to the citizens of other countries but less than to those of their own country. Their social welfare functions have a global reach but the country in which people live is part of the context with which we evaluate different policies.

The construction of a global public finance can therefore draw on many existing ingredients, and critics may say that it is simply 're-packaging'. This may be true, but I want to argue tonight that it can help illuminate a key global issue: the funding of development goals. This too is not a new subject. The Netherlands has long been in the forefront of seeking to achieve progress on development. Its record on Official Development Assistance (ODA) is very impressive; in 2004 this represented 0.74% of Gross National Income, compared with 0.36% in the UK and 0.16% in the US. Along with Denmark, Luxembourg, Norway and Sweden, the Netherlands is the only country to reach the UN target for ODA. Nor is there much novelty about the alternatives to ODA that I shall be discussing. The idea of a 'Tobin tax' (see below) on foreign currency transactions was first proposed a third of a century ago. But I would like to show how we can obtain new insights and some new ideas about ways forward by bringing to bear the accumulated knowledge which provides the ingredients for the field of global public finance.

2. Millennium Development Goals: the Challenge

At the Millennium Summit in September 2000, the states of the United Nations set out a vision of a global partnership for development, directed at the achievement of specific targets. Specifically, 189 countries signed up to the Millennium Development Goals (MDGs) summarized in *Box 1* (page 19). The concrete goals include the halving by 2015 of the proportion of people living in extreme poverty, halving the proportion hungry, and halving the proportion lacking access to safe drinking water. The objectives include the achievement of universal primary education and gender equality in education, the achievement by 2015 of a three-fourths decline in maternal mortality and a two-thirds decline in mortality among children under five. They include halting and reversing the spread of HIV/AIDS and providing special assistance to AIDS orphans.

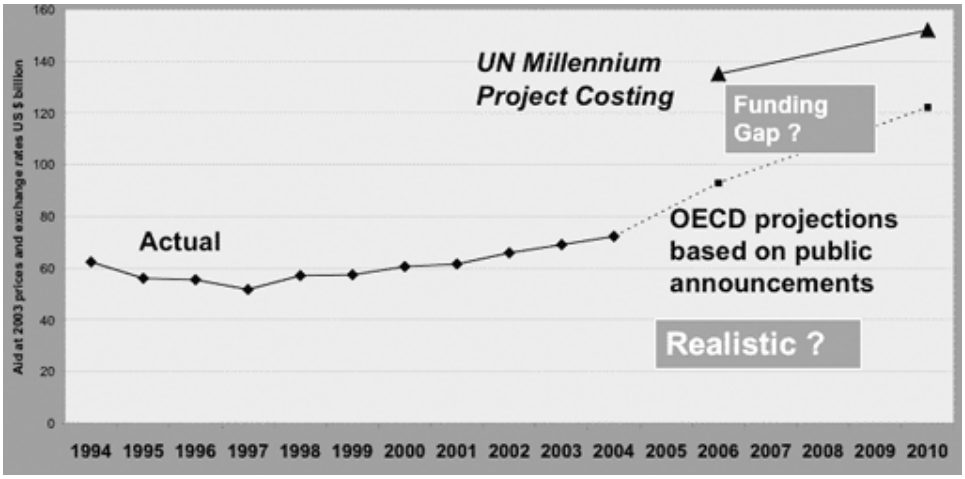
Since the declaration of the MDGs, a number of attempts have been made to estimate the financing requirements. At a global level, the Report of the Panel chaired by President Zedillo (United Nations, 2001) estimated conservatively that an additional US$50 billion would be required annually to achieve the international development goals. The UN Millennium Project estimated that the cost of the MDGs and other needs would involve additional ODA over 2003 levels of $66 billion in 2006 and $83 billion in 2010 (see World Bank, 2005, page 162). All such figures are estimates, and involve matters of judgement, but it seems reasonable for present purposes to take these latter figures, based on detailed needs assessments, as indicating the scale of necessary additional funding. I should stress at this juncture that I am not discussing in this lecture the use of ODA and its effectiveness. The use side of the account is a very important one, but I am concentrating on the financing side.

To these projected requirements there has already been an impressive response in terms of ODA. At the Monterrey Conference in 2002, it was agreed by donor countries to increase ODA very significantly. The G* meeting at Gleneagles agreed to increase aid to Africa. A number of countries have made public commitments to increase ODA, including the US Millennium Challenge Account. The OECD has assembled these commitments in the projections shown in *Figure 1*. The graph provides quite encouraging reading. After a decade of stagnation in the 1990s, ODA has begun to rise noticeably since 2001, and the projected rise by 2006 would mean an additional $20 billion, increasing to $50 billion by 2010.

All this suggests that the rich countries are responding to the challenge set by the MDGs. There are, however, two reasons for caution. The first is that there remains a sizeable shortfall from the costing of the UN Millennium Project. In 2010 the gap would be some $30 billion in 2003 prices. This may be taken as indicating that we need to increase ODA still further. As is argued by Reisen, "the most straightforward way to avoid underfunding of the Goals is to raise ODA further" (2004, page 1). And we should note that, even if the OECD projections for 2010 are met, the total will still be only 0.36% GNI (OECD, 2005), and 0.59% for the European Union. But it is not clear that this is realistic.

The second reason for caution is indeed that even the projections are based on intentions that may not be realised. This is well put by the OECD: "These figures are impressive, but they do need to be treated with some caution. For many donors they imply that aid will be perhaps the most rapidly rising element of public

Figure 1. Aid in Real Terms



spending year after year. Given the pressures on public budgets in many OECD countries, delivering such increases will be a challenge" (OECD, 2005, page 1).

3. New Funding Proposals

For these reasons, I believe that we need to consider alternative sources of funding, not least because time is of the essence. This was recognised by the UN General Assembly, which in September 2000 asked for "a rigorous analysis of the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding". This led to a project organised by WIDER in Helsinki, for which I was responsible (Atkinson, 2004 and 2004a).

In the project, we concentrated on seven of the many possibilities, as summarised below:

(1) a global environmental tax, that is a tax on goods or services generating environmental costs, with specific reference to a tax on hydro-carbon fuels according to their carbon content, or indirectly via a tax on airline travel;

(2) a tax on currency flows (the 'Tobin tax'), which is a tax on foreign currency transactions, covering a range of transactions to be defined (spot, forward, swaps, derivatives, etc);

(3) creation by the IMF of new Special Drawing Rights (SDRs), with donor countries making their allocation available to fund development;
(4) the International Finance Facility, proposed by the UK Government (HM Treasury and Department for International Development, 2003), where there would be a guarantee of long-term development aid, avoiding the uncertainties described above, and allowing additional money to be leveraged from the international capital markets;
(5) increased private donations for development, that is charitable donations by small or large donors, the former being illustrated by UNICEF collections such as Change for Good and the latter being illustrated by the Gates and Turner Foundations;
(6) a global lottery, operated through national operated and licensed lotteries, with proceeds shared between participating national lotteries and development funding, a proposal being developed by former Finnish President, Martti Ahtisaari (see Ahde, Pentikäinen and Seppänen, 2002);
(7) increased remittances from emigrants, where steps are taken to facilitate and reduce the cost of remittances.

The measures clearly differ in scale. Private donations can only be expected to fill a part of the funding gap, although the World Bank's Global Monitoring Report 2005 draws attention to 'the impressive scale of private contributions in response to the recent Asian tsunami, and major private contributions to causes such as combating HIV/AIDS' (World Bank, 2005, page 13). It notes that grants from non-governmental organisations totalled more than $10 billion in 2003. The other proposals could raise more. It has been estimated that a Tobin Tax at 1 or 2 basis points (that is 0.1 or 0.02 percent) could raise $15 or $28 billion. Taxes on carbon use by rich countries could raise twice that amount. The IFF if introduced as planned could achieve a flow of $50 billion for 2010-2015.

There are other possibilities. It will be evident that the list just given is far from exhaustive. In the case of global taxes, there are a number of other candidates: a 'brain drain' tax, taxation of ocean fishing, taxation of arms exports, a 'bit tax', and a luxury goods tax. Each of these warrants examination. I am not suggesting that the global taxes listed here are superior to those not covered. Rather I take the Tobin tax and environmental taxes as examples of possible global taxes. Similarly, it should be stressed that the measures are far from novel. At the same time, our report did come up with one new idea. Tony Addison and Abdur Chowdhury, in addition to investigating a global lottery, proposed a global 'prize

bond'. The return on both depends on a random prize draw, but, unlike a lottery, the buyer of a prize bond does not lose the initial stake. It is only the interest that goes into the draw. While financially equivalent, in that you could always invest in a savings bank and buy lottery tickets with the interest, the global prize bond could appeal to a different market and be regarded as more ethically acceptable.

4. Three Public Finance Questions

How can global public finance illuminate public debate about these alternative ways of funding the MDGs? In considering these proposals, there are several questions that occur naturally to the public finance economist.

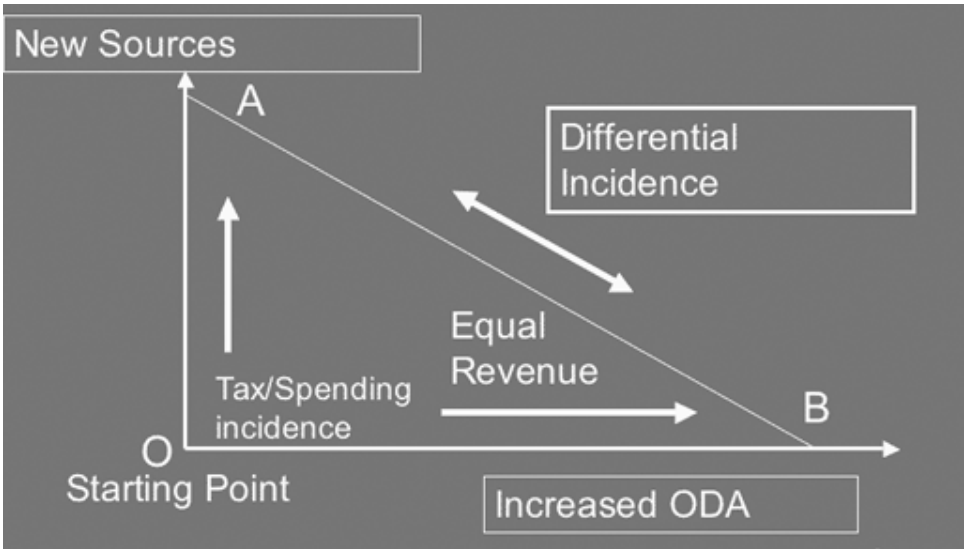
Tax/Spending versus Differential Incidence

The first question is perhaps obvious, but what exactly is being proposed? In particular, there is sometimes confusion as to whether the new sources are intended to be supplementary or in place of increased ODA. We need to distinguish carefully two different comparisons.

The first is between the current position, labelled 'Starting Point (O)' in *Figure 2*, and a situation, labelled 'New Sources (A)' in *Figure 2*, where there are new sources to fund the MDGs. We are then comparing the economic costs of the tax with the benefits from the MDG funding (this is the comparison labelled 'tax/spending incidence' in *Figure 2*). To argue against the new sources, one would have to say that the cost is too great, compared with the benefits from achieving the MDGs. The second comparison is between new sources raising $X billion, labelled 'New Sources (A)' in *Figure 2* and increased ODA of the same amount, labelled point B in Figure 2. We are then holding constant the contribution to development funding and considering different methods of financing. (This is the comparison of A with B labelled 'differential incidence' in *Figure 2*.) It would be a legitimate argument against the new sources to say that their cost is too great, compared with the cost of raising the domestic taxes necessary to fund the increased ODA by donors.

The importance of clarity about the argument is illustrated by the case of the global lottery. Opponents criticise this proposal on the grounds that the burden falls predominantly on poorer people in rich countries, whereas the cost of ODA financed through income taxation is borne by the better off. This distributional analysis

Figure 2. Net Addition to Development Resources or Alternative Source?



relates to a differential analysis of substituting a global lottery for increased ODA (moving from B to A in *Figure 2*). In contrast, a global lottery as an addition to existing funding may have quite different implications. The transfer from rich countries may be distributionally progressive in world terms, even when it is the lower income groups who buy lottery tickets. We may think differently about a lottery that moves us from O to A than about one which moves us from B to A.

Who Pays?

In my example of the lottery, I have started considering the incidence, but with all the proposals for new sources, one has to ask – who pays? There are good reasons to expect that new global taxes will be passed on to final users. This applies to energy taxes. People tend to think immediately of the impact of a carbon tax on the fuel and transport costs of households, but energy costs enter also as inputs in other sectors. The operating costs of the financial sector, for example, will be increased, so that part may appear as higher prices for apparently unrelated products. In the case of the Tobin tax, one has similarly to work through the input-output consequences to determine the final incidence. Part of the burden may well

fall on developing countries: for instance if the tax increases the cost of making remittances from emigrants. The question of incidence is not limited to the two tax proposals. Other measures have their costs. The increase in ODA that is effectively envisaged under the International Finance Facility (IFF) has to be financed, and the future commitments may affect the budgetary position of donor countries. It is illusory to suppose that simply adopting an alternative funding route avoids all cost.

Here I should note that our analysis of incidence can be no more firmly based than the economic model on which it is based. Unfortunately, we have only limited understanding of the economic impact of the different proposals. The final incidence of a global tax, such as the carbon tax, depends on the responses of firms and households that determine the ultimate general equilibrium. We can only guess that the impact of a currency transactions tax will be larger in countries more engaged in international trade. Views about the macro-economic impact of SDR creation depend on how one believes that the world economy operates. We know relatively little about the impact of remittances from migrant workers.

The one essential element is to take account of the full general equilibrium of the economy. What, for example, is the possible effect of increased flows of resources on the prices in different countries and on the terms of trade? Here international trade theory is of great help. After the First World War, Keynes addressed this problem in the context of reparations then being paid by Germany. In the present context, will there be a switch of demand towards the products and services produced by poor countries, and hence an improvement in their terms of trade? This is not of merely footnote importance. According to Krugman and Obstfeld (1994), the inflow of loans into the US in the early 1980s was a major contributor to the temporary improvement in the US terms of trade.

Is there a Double Dividend?

It is often argued that the proposals considered here have other advantages apart from the revenue raised. This is the 'double dividend' argument. Indeed, the Tobin tax was initially advocated as a means of reducing financial volatility (see Haq, Kaul and Grunberg, 1996), and taxes on energy use have mainly been proposed to slow down global warming. So we appear to have a bonus. At the same time as funding development, we are helping to reduce global warming and to discourage currency speculation. There is an allocational benefit.

However, in my view, this double dividend argument is over-stated, and it contains certain seeds of contradiction. To begin with, the tax rates required to fund the MDGs are an order of magnitude smaller than the tax rates proposed by those advocating these taxes on allocational grounds. A major contribution to development funding could be made with a Tobin tax at a rate of 1 or 2 basis points (0.01 or 0.02 percent), whereas the Tobin taxes proposed to 'put sand in the wheels of international finance' have been 10 or 20 basis points, or ten times larger. The energy tax considered here has a rate per metric ton of a tenth or a twentieth of those typically considered in the literature on global warming. The taxes are not therefore guaranteed to have any major behavioural impact, discouraging pollution and speculation. Indeed, there is something of a trade-off. From the standpoint of raising revenue, we want to tax an activity that is relatively unresponsive, so it is good news if the elasticity of demand is low; whereas if we wish to discourage the activity, we hope that the elasticity is high. Taking this argument to the limit, we may note that a carbon tax that reduced emissions to zero would be an environmental success but a revenue failure!

There are also political considerations. It is often suggested that the double dividend argument strengthens the case for certain global taxes. Two justifications are better than one. This argument is related to the classic model of 'logrolling' where two politicians agree to support each other's pet projects. One is in favour of stopping global warming; the other is in favour of funding the MDGs. However the logrolling model assumes a particular distribution of benefits and losses from the projects, the former being concentrated and the latter diffuse. Because the benefits are concentrated, it is easy to build coalitions. But in the case of development funding and environmental protection, the reverse may be true: the costs may be largely borne by a small interest group, and the benefits widely dispersed. To be more concrete, opening up two fronts also invites attack from both directions, particularly if, as we have seen, the two objectives require taxes at very different levels. The double dividend case for the Tobin tax risks attracting the hostility of opponents of the exchange stabilising level of taxation, who would not necessarily oppose the much lower rate envisaged here.

The double dividend argument should not, in my view, be over-sold. The much more modest tax rates envisaged here are more likely to be politically acceptable and less likely to have disruptive economic consequences than the global taxes proposed to curb speculation or to prevent environmental damage.

5. Three Public Finance Insights

The role of public finance economists is in part to ask questions, as I have just been doing, but it is also to provide new insights. If possible, one wants to be able to unblock difficulties as well as create them. Here I suggest three constructive insights.

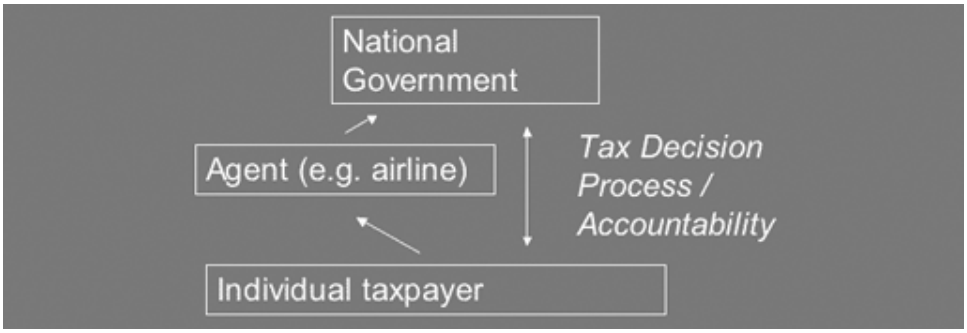
We can make progress without unanimity

No doubt you have been thinking, as I have been speaking, about the problem of getting agreement from all the major players. The natural instinct of many people is to assume that there is an inherent free-rider problem and that there has to be general, if not universal, agreement. In the present climate, with multilateralism under question, this presumption provides grounds for pessimism about the chances of making progress. Since any new issue has to be approved with an 85% majority, the US alone can veto progress, and it has so far prevented the creation by the IMF of Special Drawing Rights. In this case no action seems possible.

But it does not follow that other measures are also blocked. With the other six proposals, it would be possible, at least theoretically, for progress to be made even without the agreement of all major countries. Here we can learn from the internal experience of the European Union (EU). The EU has in the past faced situations where one member state chose to 'opt out' of collective decisions. In these circumstances, flexibility in the resulting institutions has allowed the majority to respect the opting-out decision but still make progress towards the majority objectives. There is 'flexible geometry'. Partial adhesion has costs, but the issue becomes one of balance, rather than an absolute block on action.

We have to ask therefore in the case of each proposal whether we can in fact have a 'flexible geometry', where it is viable to go ahead with a subset of countries? The likely answer to this question varies from one proposal to another. The costs of incomplete coverage depend on the nature of the source of funding. Failure of countries to participate in the International Finance Facility means that the scale of the operation is reduced, but the proposal is not undermined. The same applies to the Global Lottery, or the Global Premium Bond; indeed insofar as these schemes offer a new product, those not participating may lose out. With global taxation, the free-riding problems become potentially more significant. Significant opting out from a global carbon tax may erode the tax base, as producers relocate

Figure 3. Fiscal Architecture: National Taxation



to non-participating countries, and expose participating countries to intense lobbying from domestic interests. With a currency transactions tax, ease of relocation of financial activity depends on how extensive is the taxing jurisdiction. The larger the jurisdiction, the less elastic the response, and hence the greater the revenue potential. It certainly seems realistic to explore how far the euro zone on its own could introduce a Tobin tax at a modest rate, even if the homeland of its inventor does not follow suit. It would have a cost in terms of competitiveness, but this could be offset by an adjustment of the euro.

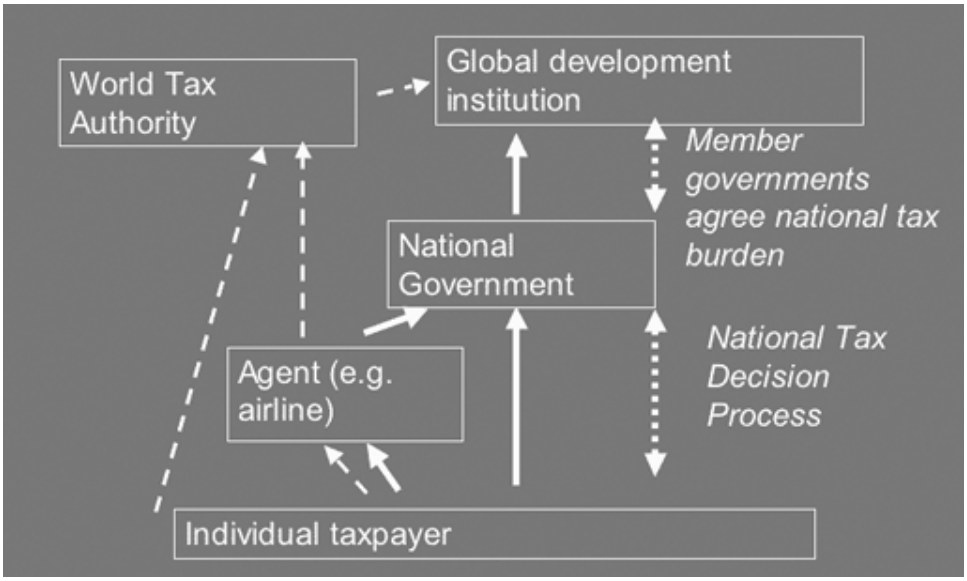
So the first insight is that we may be able to exploit variable geometry.

Subsidiarity can increase national acceptance

A second lesson that we can learn from the EU concerns subsidiarity in the administration of global taxation. A typical flow chart for national taxation is shown in *Figure 3*. National governments determine the rates of taxation and the tax base. Individual taxpayers pay the taxes to the government, which both enforces payment and is in turn accountable to the electorate. Many taxes involve intermediary agents. The individual taxpayer is shown in Figure 3, for example, as paying the aircraft departure tax to the airline, which then accounts for the revenue to the government.

One evidently cannot apply exactly the same process to global taxation (*Figure 4*). We have both global institutions and national governments, and it is the latter

Figure 4. Fiscal Architecture in Global Setting



which have to agree to the taxes being levied and which are accountable to their electorates. It could indeed be that the global tax is treated as simply a glorified domestic tax, with the revenue being forwarded by national governments to a global spending body (the heavy lines in *Figure 4*). But there are more possibilities, as shown first by the dashed lines. If there were an international air transport tax determined at the global level, then the airline could transfer the money, not to the national government, but to a global tax authority, in which case the new source of finance would bring a new actor into play. The dashed lines in *Figure 4* show this. Whether or not such a world tax authority (Tanzi, 1999) is envisaged is one of the questions that have to be considered.

Moving in the opposite direction from the introduction of a world tax authority is the case shown by dotted lines in *Figure 4*, where national governments retain not only control over the administration of the tax process but also discretion over the tax rates. In this case, participating governments would agree on their national tax liability but retain freedom to decide how the revenue is to be raised. This would in effect be applying the principle of subsidiarity adopted by the European Union.

To see why these may make the global tax more acceptable, let us take a concrete illustration. Suppose that the participating governments agree that each country should pay a tax related to national carbon emissions. This determines the amount that each participating country has to pay, but the national government would remain free to raise the revenue in whatever manner it thought fit. The national government might consider, for example, that a tax on air journeys was unfair on those living in remote rural areas, and choose for domestic reasons a different tax base. We would then have a two-tier structure, with the national tax obligation requirement being agreed multilaterally, but the tax implementation being chosen locally. Countries with more emissions would pay more total tax, but this would not necessarily mean higher fuel taxes. Income tax or a broad-based VAT could be raised instead. One reason why, under the subsidiarity architecture, a national government may choose a different tax base is that it faces political opposition to a particular form of taxation. The fuel tax protests of 2000 in Europe provide a good illustration. (Of course, this would eliminate any double dividend at the individual level.)

Changing Distribution of Income

Returning finally to ODA, the public finance economist naturally thinks of ODA as a kind of income tax paid by rich countries, with, if the UN target were to be met, countries paying 0.7% of their income if they pass a certain level of per capita income. It is not a flat tax: there is in effect a 'notch' with the tax jumping from zero as a country passes some critical level. Of course, it is not a compulsory payment, but it raises some of the same issues. In particular, we need to consider more carefully the definition of the 'critical level' at which countries become expected to contribute, and the rate structure.

A formalisation of the criteria for aid giving seems timely in view of the current changes in the world distribution of income, with the emergence of middle income countries with the potential to contribute additional resources to the funding of development. In order to take this explicitly into account, I suggest that we consider setting the critical level at a fixed level in terms of purchasing power. The present members of the OECD Development Assistance Committee, who account for some 95% of ODA, include members with per capita PPP adjusted incomes down to $19,250 in 2004 (Portugal). A number of countries with lower incomes per head, such as the Czech Republic and Saudi Arabia, make substantial ODA payments, so that a lower figure may be appropriate. Suppose, for example, that

we were to set the critical level at $40 a day or $14,600 a year? This would bring in countries such as Israel, Slovenia, Korea, and Hungary. Alternatively, we could adopt a stepped structure, where countries with incomes per head in excess of $25 a day, say, would be set a target of 0.3%, and those above $50 a day, the 0.7 target. This would bring in countries such as Poland, Argentina, South Africa, Chile and Mexico, and, importantly, would mean that there would be growing numbers of donors among the rapidly growing middle-income countries.

So far I have discussed the issue in terms of the per capita incomes of countries, but we need also to consider the distribution of income within countries, as has been noted in the literature on international burden-sharing (Kravis and Davenport, 1963). Suppose that we regard as 'taxable' only income in excess of the critical level $25 a day, with the progressive aid contribution calculated as a percentage of all incomes in excess of this amount. The contribution of a country would then depend on its distribution of income: countries with higher proportions below the critical level (or, more accurately, larger income deficits) would find their contribution increased. A country with no one below the critical level would have its per capita 'tax base' reduced by the full amount; if, on the other hand, some people fall $X below, with this money going to people above the poverty line, then the tax base is increased by this amount. (In the limit if all income goes to one person, then essentially all national income is in the tax base.) So that, if there is increasing income inequality in OECD countries, this would increase their taxable capacity.

Conclusions: Grounds for Optimism?

In this lecture I have taken it for granted that rich countries are serious about their commitment to achieving the Millennium Development Goals. I have taken it for granted that additional resources can be employed effectively to raise permanently the living standards of poor countries and their poorest citizens. On this basis, I have examined some of the ways in which these resources could be funded.

The direction taken at this juncture will depend largely on political events and political decisions, but I believe that there are some grounds for optimism that progress can be made. As we have seen, there has in the new millennium been a clear upturn in Official Development Assistance, after stagnation in the 1990s. But there remains a funding gap, and the promises have yet to be fulfilled.

At the same time, there are alternatives. One of the proposals considered here, the IFF, is designed to make a reality of the ODA commitments; others could contribute significant additional amounts. Progress, if slow, is beginning to be made at a political level. After completing our WIDER report, I was asked to join a Technical Group established by President Chirac, which prepared a report under the chairmanship of Jean-Pierre Landau (2004). The report was presented at the first global intergovernmental conference to discuss innovative means of financing development on 20 September 2004, convened by President Lula da Silva of Brazil, co-sponsored by President Chirac and President Lagos of Chile, and Prime Minister Zapatero of Spain. Some fifty Heads of State and Government attended the meeting. One hundred and thirteen countries signed a declaration that further consideration be given to the proposals, and headway is being made with a solidarity contribution added to the cost of airline tickets.

All such proposals raise questions, and one of the functions of the new subject of global public finance is to ask such questions – such as who pays? For this, we need to develop the appropriate economic analysis, and much remains to be done. But we can already provide new insights:

- That the case for global taxation should be made on its own merits, and not rely on appeals to a double dividend (the two sets of objectives are not the same).
- That we can learn from EU experience when there is not unanimity; flexible geometry may allow a sub-group of countries to proceed even in the face of opposition from other rich countries.
- Subsidiarity, also an EU invention, can increase the likely acceptability of the proposals; we can separate the taxation of countries from the taxation of citizens.
- The changing world distribution of income points to the need to formalise expectations regarding aid donorship.

The issues that I have been discussing understandably arouse strong feelings, but I hope that I have demonstrated that sober economic analysis has an important role to play.

Box 1. Summary of Millennium Development Goals

Goal 1 Eradicate extreme poverty and hunger	▪ Halve, between 1990 and 2015, the proportion of people whose income is less than US $1 a day. ▪ Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
Goal 2 Achieve universal primary education full course of primary schooling.	▪ Ensure that by 2015 all children will be able to complete a
Goal 3 Promote gender equality and empower women	▪ Eliminate gender disparity in all levels of education by 2015.
Goal 4 Reduce child mortality	▪ Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate.
Goal 5 Improve maternal health	▪ Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
Goal 6 Combat HIV/AIDS, malaria and other diseases	▪ Have halted by 2015 and begun to reverse the spread of HIV/AIDS. ▪ Have halted by 2015 and begun to reverse the spread of malaria and other major diseases.
Goal 7 Ensure environmental sustainability	▪ Integrate principles of sustainable development into country policies and reverse the loss of environmental resources. ▪ Halve, by 2015, the proportion of people without sustainable access to safe drinking water. ▪ Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers.
Goal 8 Develop a global partnership for development	▪ Develop the world trading and financial system. ▪ Address the special needs of the least developed and landlocked and small island countries. ▪ Deal comprehensively with the debt problems of developing countries.

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About the Author

Sir Tony Atkinson, Warden of Nuffield College, Oxford (1994-2005), was previously Professor of Political Economy at the University of Cambridge and Chairman of the Suntory Toyota International Centre at the London School of Economics. Professor Atkinson has Honorary Doctorates from sixteen universities. He is Fellow of the British Academy, and has been President of the Royal Economics Society, of the Econometric Society, of the European Economic Association and of the International Economic Association. He is an Honorary Member of the American Economic Association. He has served on the Royal Commission on the Distribution of Income and Wealth, the Pension Law Review Committee, and the Commission on Social Justice. He has also been a member of the Conseil d'Analyse Economique, advising the French Prime Minister. He is author of *Unequal Shares, The Economics of Inequality, Lectures on Public Economics* (with J.E. Stiglitz), *Poverty and Social Security, Public Economics in Action, Incomes and the Welfare State, Poverty in Europe, The Economic Consequences of Rolling Back the Welfare State*, and *Social Indicators: The EU and Social Inclusion* (with B. Cantillon, E. Marlier and B. Nolan. He is a Chevalier de la Légion d'Honneur.

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Zijlstra was Professor of Economics at the Free University of Amsterdam before becoming Minister of Economic Affairs, Minister of Finance, Prime Minister, President of De Nederlandsche Bank, and finally, Minister of State. Jelle Zijlstra was also a member of the Royal Netherlands Academy of Arts and Sciences.

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