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`Funding the Millennium Development Goals[1]

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1. Introduction

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) summarised in Box 1. 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 5 years. 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 World Bank study by Devarajan, Miller and Swanson (2002) estimated that the cost of the MDGs would involve additional sums of between $40 and $60 billion. All such figures are estimates, and involve matters of judgement, but it seems reasonable for present purposes to take a figure of an additional US$50 billion as being required annually to achieve the development goals. This is

[1] This lecture draws on Atkinson (2004), a report prepared at the request of the United Nations, under the auspices of WIDER, Helsinki, by a team of authors: Tony Addison, Ernest Aryeetey, Robin Boadway, Abdur Chowdhury, George Mavrotas, John Micklewright, James Mirrlees, Machiko Nissanke, Agnar Sandmo, Andrés Solimano, and Anna Wright. The project benefited a great deal from the comments of Anthony Clunies-Ross, Inge Kaul and Adrian Wood. I would like to thank them all warmly for their contributions, without implicating them in the views expressed here.

the figure cited in the Global Monitoring Report 2004 (World Bank, 2004, p. 166), and it is the 'ballpark' figure that I use here.

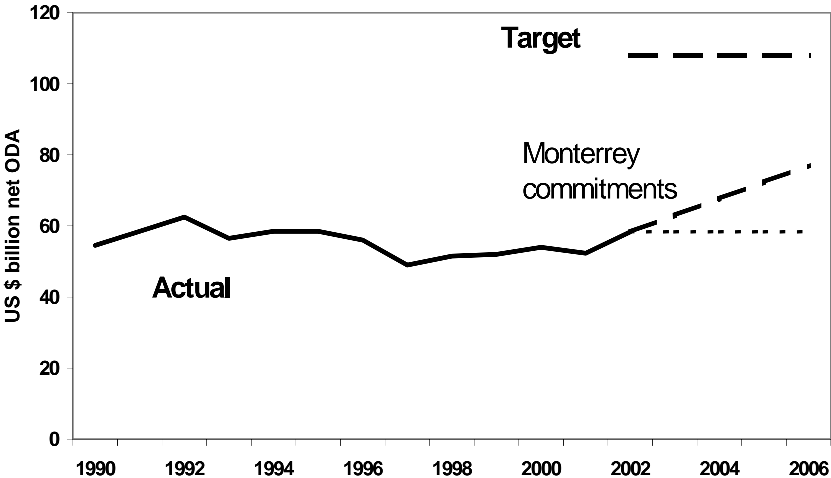
Box 1: Summary of Millennium Development Goals

Goal	Targets
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	• Ensure that by 2015 all children will be able to complete a full course of primary schooling.
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.

This sum is broadly equivalent to doubling Official Development Assistance (ODA), which in 2002 was $58 billion. Indeed at the Monterrey conference in that year, it was agreed by donor countries to increase ODA

by about $18.5 billion in real terms – see Figure 1, taken from the Global Monitoring Report (World Bank, 2004, Figure 11.1). This would still leave a sizeable shortfall, as indicated by the heavy dashed line. But the amount required is still modest as a percentage of the donors' Gross National Income. With the additional $50 billion, the target is some 0.4 per cent of GNI, or well short of the frequently discussed target of 0.7 per cent GNI. Indeed as a percentage, it would not be very different from that achieved in the early 1990s. I stress this point, because, although I shall come back to increasing ODA at the end, I primarily consider alternatives to raising ODA. These are all more complex and each involves its own problems. If unconditional ODA were to be sufficiently increased, then this would undoubtedly be more direct. As is argued by Reisen, "… the most straightforward way to avoid underfunding of the Goals is to raise ODA further" (2004, p. 1). However, I believe that we need to pursue both routes, not least because time is of the essence.

Figure 1: Aid in Real Terms



2. New Sources of Development Finance

The UN General Assembly asked for an investigation of alternative sources, adopting a resolution calling for "… a rigorous analysis of the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding, both public and private, for dedication to social development and poverty eradication programmes". The remit was clearly wide, and in our report for WIDER we concentrated on only seven of the many possibilities, as summarised in Box 2: (1) a global environmental tax; (2) a tax on currency flows (the 'Tobin tax'); (3) creation by the IMF of new Special Drawing Rights (SDRs); (4) the International Finance Facility, proposed by the UK Government; (5) increased private donations for development; (6) a global lottery or a global prize bond; and (7) increased remittances from emigrants.

It will be evident that our coverage is far from exhaustive. In the case of global taxes, there are a number of other candidates: a 'brain drain' tax, an international air transport tax, taxation of ocean fishing, taxation of arms exports, a 'bit tax', and a luxury goods tax. Each of these warrants examination. We are not arguing that the global taxes investigated here are superior to those not covered. Rather we took two of the most widely discussed – the Tobin tax and environmental taxes – as examples of possible global taxes. Similarly, it should be stressed that the coverage of non-fiscal measures is not exhaustive. We do not, for example, cover measures to raise capital funds in developed countries or measures to leverage the funds arising from trade.

Some of the proposals have multiple objectives, but our focus here is on their potential as a source of development funding. The creation of SDRs was first proposed to ease problems of international liquidity, but here we are concerned with their potential role for development purposes. The Tobin tax was initially advocated as a means of reducing financial volatility (see Haq, Kaul and Grunberg, 1996), and taxes on energy use are proposed to slow down global warming, but in both cases we are concerned here with the revenue they could generate to finance development.

Box 2: Innovative Sources of Development Funding Considered Here

Source	
Global environmental taxes	Tax on goods generating environmental externalities, with specific reference to a tax on use of hydrocarbon fuels according to their carbon content.
Currency transactions tax ('Tobin tax')	Tax on foreign currency transactions, collected on a national or a market basis, covering a range of transactions to be defined (spot, forward, future, swaps and other derivatives).
Creation of new Special Drawing Rights (SDRs)	Creation of SDRs for development purposes, with donor countries making their SDR allocation available to fund development.
International Finance Facility (IFF)	Long-term, but conditional, funding guaranteed to the poorest countries by the donor countries. Long-term pledges of a flow of annual payments to the IFF would leverage additional money from the international capital markets.
Increased private donations for development	Charitable donations by private individuals and firms. Measures to encourage private funding of development: tax incentives, Global funds, corporate giving, and the Internet.
Global lottery or global premium bond	Global lottery operated through national state-operated and state-licensed lotteries, with proceeds shared between national participants and an independent foundation established in conjunction with UN. Global premium bond, parallel to national bonds with lottery prizes.
Increased remittances from emigrants	Logistics (reducing cost of remittances), financial institutions (encouraging repatriation) and citizenship rather than residence basis for taxation.

The *first* conclusion reached in our report is that the two global taxes considered could yield revenue of the magnitude required (tax on carbon use) or at least half of the requirement (Tobin tax at a rate of 2 basis points). As already stressed, the target $50 billion is a relatively small percentage of the gross national income of rich countries. It is some 0.25 per cent of the total income of the EU and US combined.

The *second* conclusion is that the tax rates required for this purpose are an order of magnitude smaller than the tax rates proposed by those advocating these taxes on allocational grounds. 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.

Third, there are alternatives to global taxation. The International Finance Facility proposed by the UK government (HM Treasury and Department for International Development, 2003) could, if it attracts sufficient support from other major donors, yield flows over the crucial period up to 2015 of the magnitude required. (Although it is open to question how far this differs at heart from a commitment to expand ODA.) The creation of SDRs for development purposes has been envisaged as raising some US$25-30 billion. This means that it could contribute a significant part of the total, but would need to be combined with other measures, particularly if such allocations were made less frequently than annually. One such additional source is the global lottery, which could generate significant revenues, if agreement can be reached with national lotteries (Ahde, Pentikäinen and Seppänen, 2002). A global premium or prize bond could provide a flow of loan funding not otherwise available. Supporting roles could be played by increased remittances from emigrants, and, on a more modest scale, increased private donations.

Fourth, in each case, we have to investigate how far the funds raised are additional. Countries signing up to the global lottery, for example, or for a global tax, may cut back on their ODA. There is a risk that innovative measures crowd-out ODA. This is a serious risk, but it should be noted that among the countries actively canvassing support for new measures are those that have also announced that they will reach the 0.7 per cent ODA target.

3. Global Public Finance

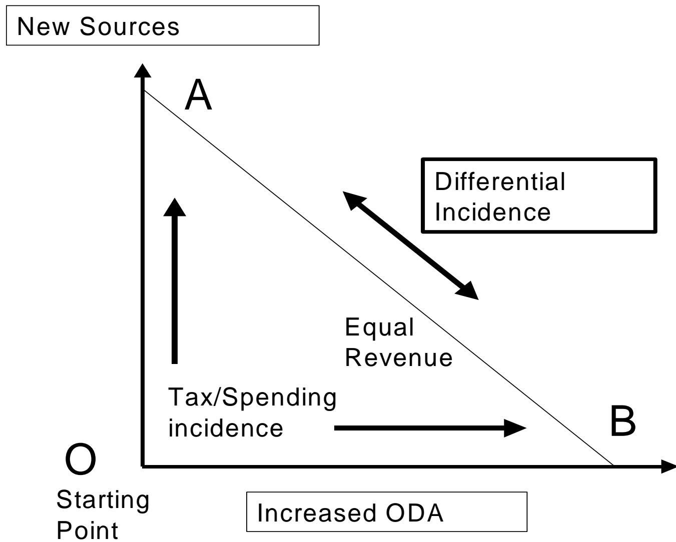
The innovative sources are, therefore, worthy of further consideration. Each of the proposals raises distinct issues, and these are considered in the different chapters of Atkinson (2004). But one of the contributions of the report is to identify a number of over-arching issues. Our aim has been to bring to bear on the global funding of the MDGs the accumulated knowledge in the field of national public finance. Here I focus on three main lessons.

Tax/Spending Versus Differential Incidence

First, there is the relation with ODA. As we have seen, the target of an additional $50 billion could be achieved by a doubling of ODA, and in debating the merits of new sources of development funding, 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 raising $50 billion 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 $50 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 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.

Figure 2: Net Addition to Development Resources or Alternative Source



Who Pays?

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. We know little about what influences the destination of private giving.

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. Both energy use and currency transactions taxes have potential to act as corrective taxes. 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, as already noted, the proposed tax rates are much lower than those advocated for these purposes. 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. 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.

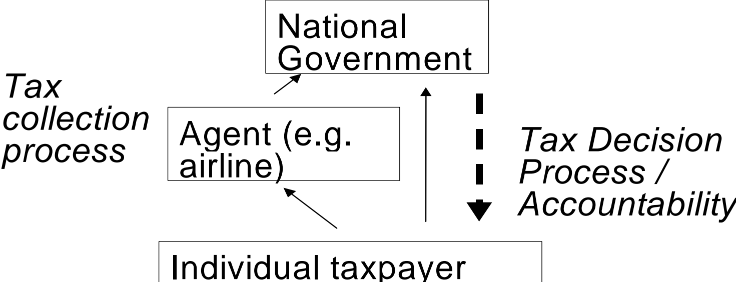
4. Fiscal Architecture

If the new sources require government action (as we have noted, not all do), then does the success and effectiveness of any particular proposal depend on complete adhesion of all donor countries? 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. On the other hand, suppose that we start from the position that universal agreement may be impossible and examine the implications of going ahead with a subset of countries? The US has so far prevented the creation by the IMF of Special Drawing Rights, and 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 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 area on its own could introduce a Tobin tax at a modest rate. Current fears about the strength of the euro relative to the dollar suggest that now is a good time to ask this question.

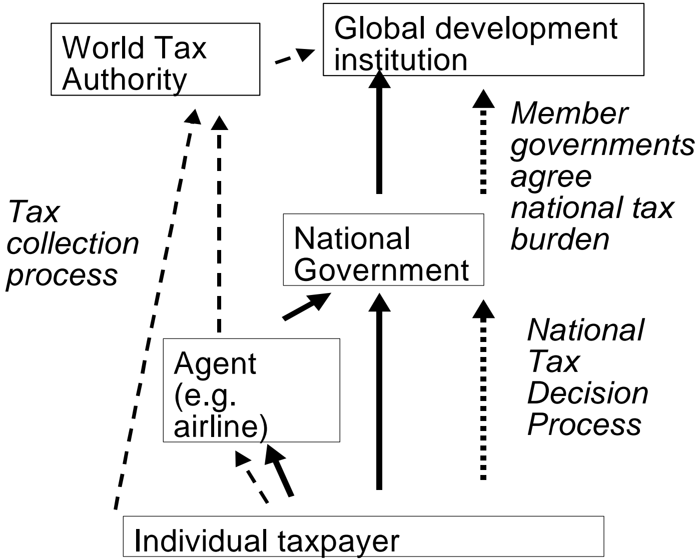
Flexibility may also be important in a different sense when it comes to the administration of global taxation. A typical flow chart for national taxation is shown in Figure 3. National governments determine the rates of taxation and the tax base. Individual taxpayers pay the taxes to the government, 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.

Figure 3: Fiscal Architecture – National Taxation



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 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 by the dashed and dotted 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.

Figure 4: Fiscal Architecture in Global Setting



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 give 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.

5. A Global Income Tax Initiative

This leads me to a proposal that goes beyond those considered in our report: a global income tax initiative. In a number of OECD countries there has been a large increase in the share of income going to the very top – the top 0.1 per cent or smaller groups. Piketty and Saez (2003) have demonstrated this for the US. In the UK, the share of the top 1 per cent in before-tax income rose from 5.7 per cent in 1978 to 8.7 per cent in 1989, and by a further 3 percentage points in the next 10 years (Atkinson, forthcoming). Nolan (forthcoming) shows that the share of the top 1 per cent rose substantially in Ireland in the 1990s.

Alongside the rise in the top shares has been a fall in the top rates of income tax in the US, the UK, and other countries. These falls have in part been the result of tax competition, with countries seeking to attract the wealthy and to make their economies attractive to multinational enterprises. This leads me to a proposal that is directed both at reducing tax competition and to providing new funds for development. The

bargaining power of individual countries could be increased if they band together and form a multilateral agreement. This agreement could institute, among the countries adhering, an international tax regime that overrides the national taxes. The tax authorities would auction Global Tax Permits. The successful bidders could become global income taxpayers, with a zero marginal rate. The revenue would be divided between the host country, the other participating countries, and the funding of the Millennium Development Goals. The authorities would reserve the right to reject a bid without giving grounds, and the bids would be made public. This information would be of considerable value to the tax authorities.

One can see the attractions to the tax authorities, but why would anyone bid? There are two reasons. The first is that many of the very rich welcome certainty about their tax affairs, and seek to achieve this by reaching agreements with fiscal authorities. When Benjamin Franklin said, "… nothing in this world can be said to be certain, except death and taxes", he was only half right. Taxes today are not certain, especially if one's financial affairs are complicated. Then there is vanity. The bids would be public and one can imagine that some people would pay to belong to this exclusive club – say, the Upper 10,000. Of course the US Government may not wish to join, but this is another case where flexible geometry may work.

6. An EU Target: the Missing Chapter of the Lisbon Agenda

As I said earlier, I believe that we need to pursue both innovative sources and the possibility of increased ODA. I return now to ODA. The purpose of this final section is to make the case for a European Union aid target more ambitious than the 0.39 per cent committed by the European Union in its (very welcome) statement before the Monterrey Conference on Financing for Development in March 2002.

In my view, this is the missing chapter of the Lisbon Agenda. At the Lisbon Council of March 2000, Heads of State and Government set out the ambition of making the European Union perform as a highly dynamic and competitive economy. Plans were announced to liberalise markets and to make the labour market more flexible. There has been much discussion of these goals, and of the limited progress made to date, but for me one of the missing elements in the debate has been the impact on developing countries. The Lisbon Agenda may have both positive and negative effects on developing countries. On the plus side, faster growth in Europe will stimulate demand for their exports. To the extent that productivity rises in

the high technology sectors, this may turn the terms of trade in favour of developing countries. If, however, the aim of greater flexibility is to reduce wage costs, and make Europe more competitive, in low technology sectors, then this policy reduces the demand for the products of the newly industrialising countries. The exemption of the first tranche of earnings from social security taxes, for example, may generate increased employment for low-skilled workers in Europe, but it does so by reducing the relative price of the import-competing sector. It means that textile production remains profitable in the face of competition from lower-wage countries. The policy of making 'Europe more competitive' has potentially negative implications for the rest of the world that have tended to be overlooked.

A policy of domestic labour market reform has, of course, distributional implications *within*, as well as outside, Europe. This is why the Lisbon Agenda calls for greater social inclusion. The adoption in 2001 of the common set of social indicators means that any adverse effects of labour market flexibility on the extent and persistence of poverty will be regularly monitored. The Member States are committed to implementing National Action Plans on Social Inclusion. This welcome adoption by the EU of a social agenda to protect its own citizens should, in my view, be accompanied by a more ambitious statement of its concerns for those less fortunate who live outside its boundaries. This is reinforced by the recent accession of ten new Member States, which will involve a substantive degree of redistribution within the enlarged European Union. It is important to underline that redistribution is not confined within the boundaries of the Union, and that external development assistance to the poor worldwide is an essential part of the *acquis communautaire*.

Since the first Treaty of Rome, Europe has seen a role for common action in the field of development assistance, notably via the association of developing countries, and the successive Yaoundé (1963 and 1969) and Lomé (1975) Conventions. Since the Maastricht Treaty, development co-operation has had a specific legal basis (Articles 177-181 of the Treaty on European Union). Together, the EU and its Member States provide around half of all official international development aid. But the scale of assistance could be considerably increased. The EU collective average promised at the Monterrey Conference would only reach 0.39 per cent by 2006 (European Council, 2002). The more ambitious objective that I have in mind is that the EU as a whole should reach the UN target of 0.7 per cent of GNP for official assistance. The gross national income of the enlarged EU is some €10,000 billion (using the American definition of a billion as a thousand

million). Reaching the 0.7 per cent target would produce some $70 billion. In Atkinson (2002) I was still more ambitious, and argued for a 1 per cent target, but even with 0.7 per cent the addition, compared with the Monterrey promise, would go a long way towards filling the gap shown in Figure 1.

I should emphasise that I am not suggesting that all EU aid should be channelled through EU machinery. I am not taking a position on the relative effectiveness of national and EU aid programmes. Nor am I proposing that *each* Member State should contribute 0.7 per cent of its national income. Given the differences in income per head across Member States, particularly following the recent Accession, there is a case for a progressive contribution formula. If we take as a risk of poverty yardstick a figure of 60 per cent of the median income for the EU as a whole (adjusted for family size and for differences in purchasing power), then a progressive aid contribution can be calculated as a percentage of all incomes in excess of this amount, referred to as the EU tax threshold. The resulting total excess income would then be that country's "tax base". The size of the tax base relative to total income in a country would then depend on its income per head relative to the EU mean, and on its distribution of income. The maximum amount that a country can deduct from its total income to arrive at its tax base would be equal to the European tax threshold times the total population. This only applies if no one in that country has an income below the EU tax threshold: to the extent that people *do* fall below the EU threshold, then *less* can be deducted to arrive at the tax base, and the country contributes more.

7. The Way Forward

The direction taken at this juncture will depend largely on political events and political decisions. But sober economic analysis has an important role to play.

In this lecture, I have argued that there *are* ways in which we can fund the MDGs. As a proportion of the gross national income of rich countries, the sum involved is not large. It could be raised by an increase in ODA to some 0.4 per cent of GNI, or well short of the 0.7 per cent target to which a number of countries aspire, including Ireland, and indeed not very different from that achieved in the early 1990s. The IFF proposed by the UK government could facilitate this increase in ODA. I have argued that it would be timely for the EU to adopt an explicit target for ODA to reach

0.7 per cent for the EU as a whole, with a progressive formula for the contribution by individual Member States.

But I have also suggested that we need to pursue both a policy of increasing ODA and of seeking new sources, such as global taxation. Both approaches – increased ODA and new sources – will take time, and time is of the essence. I have argued that a package of new sources could be assembled for this purpose. This could include a global energy tax and/or a Tobin tax on currency transactions. These proposals have been around for a long time – we are celebrating the thirtieth anniversary of Tobin (1974) – but it is important to stress that the taxes considered here are an order of magnitude smaller than those advocated to address global warming or to deter currency speculation. This means that one cannot claim much in the way of a "double dividend", but the more modest tax rates envisaged here are more likely to be politically acceptable and less likely to have disruptive economic consequences. We need also to entertain flexibility. The tax may be introduced by a subset of countries. For example, the euro zone can consider introducing a currency transactions tax, even if the homeland of its inventor does not follow suit. We can separate the taxation of countries from the taxation of citizens: a tax on a country's CO_2 emissions does not have to be raised by domestic fuel taxes. We have therefore tried to think in a novel way about long-standing proposals. Equally, we have analysed new proposals, such as the International Finance Facility, and the global lottery. We have put forward new ideas, such as the global prize bond, and (not in our report) the global income tax initiative.

Politically, there are grounds both for pessimism and for optimism. Two powerful and divergent forces grip the world at present. On the one hand the effectiveness of international organisations has been called into question. The role and functioning of the United Nations is debated. Some nations exhibit frustration with multilateral co-operation. In the field of development finance, there is talk of "donor fatigue". Proposals for global taxation meet immediate opposition from powerful elements in the US Congress. On the other hand, the recognition is being cemented that a global economy requires global institutions. International organisations are viewed by many as the key to the free movement of goods, services and capital. We have seen the adoption of ambitious development targets in the form of the Millennium Development Goals. Donor countries have pledged increases in Official Development Assistance. Individuals continue to support development charities. US billionaires are personally funding development and world health activities.

Where do I stand? 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), French Director of EBRD. The reports were presented at the first global intergovernmental conference to discuss innovative means of financing development on 20 September 2004. This meeting of world leaders was 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 50 Heads of State and Government attended the meeting. The US representative argued that global taxes are undemocratic and impossible, but 113 countries signed a declaration that further consideration be given to the proposals. I end therefore on a note of cautious optimism.

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