THE POLITICAL ECONOMY OF ADDITIONAL DEVELOPMENT FINANCE

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ABSTRACT

The article discusses the political obstacles and supports for additional finance for development, and a number of possible means for strengthening mobilization of the support and for circumventing the obstacles. It emphasizes the need for effective negotiating alliances among developing country governments that will draw support from other countries and organizations. It gives particular attention to innovative methods by which funds might be mobilized by transnational activity for distribution within a strategy for the progressive reduction of poverty. In order to eliminate one difficulty it outlines a possible arrangement through which funds so raised might be allocated.

INTRODUCTION

The world needs more development finance, to facilitate faster growth in economies of low- and middle-income and for attending to shorter-term basic material and welfare needs of poor people in poor countries. There are many purposes that count as urgent from a humanitarian point of view and that depend on extra funding – vaccination, essential medicines, dehydration doses, clean and accessible water supplies, sewerage, teachers' pay, teacher training, emergency food stocks, and the transport, skills and administrative infrastructure to bring these benefits to fruition. And this is taking no account of the relevance of much of the same infrastructure, or of the immediate welfare benefits themselves, to economic growth and to the increased material capacity that it will eventually bring.

Extra development finance may come, first, as extra national resources, in the form either of enhanced national revenue for the governments of developing countries, or of enhanced personal disposable income for those of their citizens likely to spend part of the addition on enlarging their productive capacity or ministering to the urgent needs of their families or communities. It may come, secondly, from voluntary donations, directly or through non-government organisations (NGOs). It may come, thirdly, in the form of Official Development Assistance (ODA), either bilaterally (government-to-government) or in the form of payments from governments to international institutions. Fourthly, it may in principle come from the activities of international institutions themselves, or from taxes imposed on resources or activities that are held to be international in character, or from taxes or comparable levies that depend for their collection on international cooperation. Resources coming in any of these last ways may be called global-provenance funds. Genuine possibilities exist for realising finance in this fourth form.

The Sachs Report on strategy to achieve the Millennium Development Goals (MDGs) is concerned with action on a wider front than aid in these senses. (Sachs Report, 2005) And, over aid itself (in the sense of the third and fourth categories in the preceding paragraph), it adopts a selective approach, advocating heavy concentration on those recipient countries geared by the character of their governance to make good use of the resources provided. Even so, it advocates increasing aid provided by high-income countries from around 0.25 per cent of donor national income in 2003 to around 0.44 per cent in 2006 and 0.54 per cent in 2015. Millennium Project personnel calculate the difference between total ODA needs and existing annual commitments as $48 billion in 2006, $50 billion in 2010, and $74 billion in 2015.

This paper is concerned with potential sources of additional development finance that have an international dimension: that depend on some form of cross-national activity. (Atkinson, 2004) The underlying question in the paper is how forces might be more effectively mobilised to secure by international action additional development finance. It discusses strategies that might enable additional funds to be released; the innovative sources of finance that offer the most feasible possibilities; the obstacles that might be encountered in advocating them; the bodies that are potential allies in this enterprise; and some particular initiatives that might exploit potential synergies, short-cuts, soft targets, and easy options.

1. STRATEGY

John Braithwaite describes important instances in which apparently weak parties in international economic negotiation have achieved their purposes through strategic alliances and networking. The strategy required can involve the building of alliances (alliances that may include commercial enterprises and NGOs as well as governments); used assertively, but in a measured and graduated way, the powers of punishment and reward available to the alliances; concentrating the bargaining power, creativity, and technical competence of the alliances at what are described as 'nodes' (times and places at which they take opportunities to pursue their objectives); and in this process choosing, from among international forums, those that from time to time will be most favourable to the purpose pursued. 'In an era of networked governance', Braithwaite writes, 'weapons of the weak can become formidable.' (Braithwaite, 2004: 1)

Economic weight counts, Braithwaite argues, but it is not the only factor in determining power and influence in international economic negotiation, and he cites examples. Japan, with the second-largest affluent economy, appears to have played a much less powerful role in global business regulation than France or Britain, less powerful in some cases even than some of the much smaller Scandinavian countries. By mobilising the Cairns Group of countries with strong interests in primary exports, Australia, which by its economic weight ought not to be more than a medium-sized player, could influence the farm-protection policies of the EU, the USA, and Japan. Developing country governments opposed to the projected Multilateral Agreement on Investment were able, with the help of NGOs in both rich and poor countries, to sink it in 1998. On the other hand, a small group of Washington lawyers, representing particular firms, were able to build up a coalition that could use the formation of the World Trade Organisation as an occasion for pushing through the TRIPS Agreement on intellectual property, an arrangement that much of the world soon came to deem as against its interests. As another example, proponents of an ozone-layer agreement were able, by enlisting Dupont, the largest US chemicals producer, which had potential interests in favour, to bring the US government on side and so to achieve, in the Montreal Protocol of 1987, the most successful global environmental treaty so far.

It is possible to see how a coordinated alliance (potentially governments, firms, and NGOs) may produce shifts in attitudes, in understanding, and in clarity on the measures by which the requirements of the parties to any negotiation may best be met, even in the absence of explicit threats or of the offer of concrete concessions. It is clear why, in the process, concentrating expertise, imagination, and ingenuity – beside any potential weapons of promises and threats – in the appropriate forum or forums may well be crucial. Providing the forum with the resources of a well-staffed international organisation – one directed by its founding brief at a recognised public-good - will bring obvious advantages to the cause of movement in the direction of that public-good.

Can these insights be relevant to the cause of additional development finance? In contrast, admittedly, to some other questions, such as those relating to trade or direct investment, the global volume and terms of development finance have *not* generally been a matter of negotiation between rich countries and poorer countries collectively, other than through the replenishment negotiations for the International Development Association of the World Bank. This is no doubt partly because there is no institution linking together the amounts of bilateral aid coming from the various donor countries. Global targets for amounts and quality of aid from rich countries have been declared, but they have been no more than aspirations. In part it may be because, to a much greater degree than with the relationships of trade and direct investment, the bilateral donor-recipient relationship in aid seems asymmetrical: the recipient has nothing intrinsic to the relationship with which it can bargain.

However, some modification of this situation may be achieved if negotiations can consider questions of aid together with other objectives, some of them of interest to the countries that would be predominantly donors of aid. If an alliance such as the new (Cancún) Group of Twenty could be united enough to entrust a small subset of its members to negotiate on its behalf with say a similar subset from the G8, a number of issues might be put on the table together. The conventional wisdom on negotiation is that the likelihood of an outcome welcome to all parties is enhanced if several more-or-less connected issues can be considered at the same time so that they can be traded-off against each other.

Moreover, the idea of development finance as a bounty rather than a responsibility or obligation on the part of potential donors is a matter of prevailing values, which may be altered. There are vocal NGOs and highly respected world personalities pointedly challenging these values. Those who mistrust their own, and others engaged politicians and officials might pay attention to Oxfam or Nelson Mandela. Negotiation over the total volume and quality of external development finance is thus not necessarily off the agenda forever.

It is unlikely that the official development assistance appropriated in the usual way by national governments will alone generate sufficient funds to enable countries to achieve the Millennium Development Goals, and so there is real value in exploring additional, innovative sources of finance. Some of these innovative sources will bring other advantages too, as will be mentioned later. Those discussed below are those considered by the authors to offer the strongest possibility of acceptance and effectiveness.

2. POTENTIAL METHODS FOR RAISING ADDITIONAL FINANCE

A. INTERNATIONAL TAX COOPERATION

A particularly attractive strategy for raising additional finance for development is to identify and publicize measures that would secure win-win possibilities for all countries involved. One of the most obvious methods is improved international tax cooperation.

Examples where there would be gains to all fiscal authorities would be (a) the concerted imposition, at least by the rich countries, of a withholding tax at a significantly high rate on interest and other portfolio income accruing to foreign residents; (b) a coordinated whole-enterprise system of assessing the taxable income of multinational firms with the total divided by formula among the countries of operation; and – failing that, or where it can not be fully applied – (c) tax-liability in a multinational firm’s country of residence (origin) for its whole global income but subject to credit (not deduction from base or exemption) for tax paid in other jurisdictions. The governments of most or all major countries, rich and poor, have the potential to gain government revenue, from the first two of these arrangements. The third would be of clear benefit fiscally to host countries as a body over arrangements normally in place now, in that it would remove any incentive they had to competitive tax reduction for the purpose of attracting multinational investment. It might or might not be of fiscal benefit to countries of origin, depending in part on the provisions that it would be replacing.

The obstacles, at least in the first two of these cases, are probably the lack of a widespread understanding of the effects of present arrangements and of the alternative possibilities; lobbying by criminal or socially irresponsible private vested interests that may exert themselves to misrepresent the issues; the opposition of a few, small states, some of them affluent, that profit from offering opportunities of tax-evasion and tax-avoidance, but might possibly be compensated, at least in part; and bureaucratic-cum-political inertia or lack of imagination. Some individuals would of course lose from these changes, from having to pay the taxes that the law obliges or intends them to pay but which they would otherwise evade or avoid. But evasion and avoidance in this sense are generally both unfair and inefficient. The fiscal gain accruing to the authorities of most countries from closing these gaps would generally be in the interests of their peoples.

Tax cooperation would be expected to give fiscal gains to all states involved in it, rich and poor, and to the great bulk of the states affected. If a number of prominent developing country governments that would be major beneficiaries of a particular measure of this character could combine to press for it there would be good reasons why they should prevail. Though the US has recently set its face firmly against an international tax organisation of the kind advocated by some of those eager for reforms, the UN agreed in 2004 to upgrade international tax cooperation by establishing a strengthened Committee of Experts on International Cooperation on Tax Matters. Both the OECD generally and the EU have moved in the direction of eliminating the capital-flight abuse among their members, and the OECD has engaged in continuing activity against tax havens. This is at least a half-open door.

B. Regular Issues of Special Drawing Rights

A second example of what might very well be a general improvement for all countries is the regular issue of Special Drawing Rights (SDRs) by the IMF. The primary purpose of SDRs, at the time of their institution in the late 1960s, was stabilisation in a world in which a shortage of international reserves was feared. On the potential income gain to developing countries as a body from regular SDR allocations, present and past IMF officers Clark and Polak mention a study of the mid-1990s estimating that a repeated annual allocation of 36 billion SDRs would add to the income of developing countries of the order of an increasing annual flow of 1 billion SDRs in the first year, 2 billion in the second, and so on, that is a cumulative total addition to income of 55 billion over the first ten years. (The value of an SDR is of a similar order to that of a US dollar, and has usually been higher over the past twenty years.)

An additional possible bonus to developing countries from regular SDR allocations would be reallocation of SDRs from developed to developing countries. The proceeds from these SDRs (or, if the rules permit, the SDRs themselves), making up roughly 60 per cent of each allocation, might be recycled as development finance. However, because the original recipients would still have to pay interest on them at the (low) SDR rate, they would have to be recycled as low-interest (termless) loans rather than as grants if there were to be no net cost of the operation for these original recipients. There would be no net cost to any party. There would appear to be no interests against this transformation.

Despite the reluctance of major some major countries during the last couple of decades, the regular creation of SDRs would appear to have virtually all the characteristics for qualifying as a soft target. First, the only arguable national interests against are those of the countries, mainly the US, that are able to continue accruing short-term debts as foreign holdings of their currencies expand. Yet foreign holdings of these currencies, even official foreign holdings taken alone, will continue to grow in the face of the annual amounts of SDR creation generally discussed – and in fact to grow by larger absolute amounts than the stock of SDRs. Second, there would be a contribution to the global public good of economic stability. The issue of SDRs not only increases the real income of most developing countries by reducing the costs they incur for holding reserves but also, insofar as it leads them to increase their reserve holdings, contributes to the stability of their currencies, failings in which, as the East Asian crisis of 1997-98 showed, might have important implications for the world economy. Third, the path to implementation for regular allocations of SDRs could hardly be clearer or simpler. IMF staff has often been favourably inclined. Fourth, in spite of the fact that the conservative US Congresses of the late 1990s chose to frustrate the attempt of the Clinton Administration, backed by most of the rest of the world, to increase the stock of SDRs significantly and also to make their cumulative distribution more equitable, the issue can hardly be said to have generated ideological fervour.

Altogether the ramparts against the regular issue of SDRs and their recycling seem intrinsically weak. But nothing is likely to happen in the near future unless the major developing countries take the issue on board as a matter for serious and assertive negotiation.

C. Establishment of an International Finance Facility

Since early 2003 the innovative financing method most consistently championed by the UK government has been establishment of an International Financing Facility. This would depend on an agreement among major donor countries to commit part of their ODA to the servicing of loans that would be raised in the markets. The borrowing could be sufficient to roughly double the disbursements of aid to developing countries in the years leading up to the MDG deadline of 2015. The additional aid disbursements would be essentially bilateral in that the donor countries would each decide on the projects or purposes for which the funds would be spent. Any joint organization would be a purely financial intermediary, with no allocative function. It would issue bonds in the commercial markets, and would service them from the funds provided by the donor countries.

There are inevitable doubts over how far the legislators of donor countries could bind their successors far into the future to meet the obligations required, and how far the markets would believe them if they purported to do so. As security against default, projections used to estimate the financial contributions required suppose that only 80 per cent of the funds committed in advance by donors would be necessary to meet servicing costs. There are also misgivings over the projected pattern of cash flows to recipients in the form of aid, which would fall sharply after 2015. Some other source might need to come on stream at that time in order to avoid such a fall. An apparent advantage over some other proposed innovative sources is that the scheme could work if necessary with a small number of donor participants.

Donors participating would need to commit their countries (eventually for 30 years if the full programme with safety margin were to be completed by 2015) to increase the post-Monterrey segment of their annual aid appropriations by 4 per cent in real terms each year, which means that that segment would have risen by about 224 per cent (that is to over three times its initial real value) at the end of the 30-year period. As time went on, this segment might well come to represent a very large part of their total aid appropriations, and still in the 2030s they would have no discretion whatever over how it would be applied: it would be committed to servicing debts already incurred. By early 2005 at the Davos meeting, France and Germany were not ruling out the International Finance Facility but were mainly backing other innovative methods.

D. Taxing Greenhouse Gas Emissions

On the face of it, any device that plausibly tied its provision to the pursuit of some other widely approved objective may well enhance aid. A possibility sometimes discussed is the collection for development aid purposes of a universal tax on carbon emissions. Beside appearing to generate what has been called a ‘double dividend’, this is a tempting idea because a levy of trivial dimensions, such as the equivalent of 5 US cents per US gallon of gasoline, would (on the assumption of very little resulting change in demand) raise worldwide such a large sum: on figures from the mid-1990s already of the order of $130 billion a year. (The fact that there probably would be very little resulting fall in demand does, of course, greatly dilute the ‘double-dividend’ case.) However, as with other suggestions evoking the same principle, consideration of the means by which this would need to be done reduces its political appeal. It would have to be collected by each country individually, under authorization achieved through its own fiscal processes, and, if this happened, there would be no obvious moral or pragmatic reason why the proceeds of this tax, rather than of any other, should be directed internationally. In fact, on grounds of equity, it might be considered an unsatisfactory international tax, since the level of carbon-emission is only loosely related to national income, and the tax, if collected at a constant rate per physical unit, would take much larger shares of income from some countries than from others, and indeed larger shares from some developing, than from some affluent, countries. The worst of the inequity might be avoided if only those carbon-tax proceeds raised from affluent countries were to be applied to international purposes.

Similar practical difficulties from a political standpoint, complicated by questions of equity, arise with other suggested methods of raising global revenue – such as air-travel or airline-fuel taxes – that involve each national authority in separately authorizing and collecting the tax within its jurisdiction and then (so it is hoped) remitting the proceeds internationally.

E. A COORDINATED TAX ON AIRCRAFT FUEL

By a strange anomaly aircraft fuel has been free of duty under the Chicago Agreement of 1946. For the most rudimentary reasons, it is inefficient that aircraft fuel is tax-free while fuels for competing modes of transport are taxed, as they mostly are in rich countries. This is quite apart from the important negative externality involved in all hydrocarbon burning because of its contribution to climate change.

There are good grounds for scrapping the Chicago Agreement –for taxing aircraft fuel and for doing so uniformly. To agree on that would be an achievement. But it is another big step politically to devote the proceeds to global purposes. However, the distribution of the burden across countries would in general be positively, and quite possibly progressively, related to income. Any inequities are likely to be much less glaring than with assignment of a uniform carbon tax or a uniform arms-sales tax to global use. There would be vested interests in a number of countries against it, and probably a modicum of grumbling everywhere about higher air fares. Cheap tourist destinations might suffer differentially. But the welfare case for the tax itself could be presented so that it would be difficult to gainsay through any intellectual argument. And, if the international purpose for which it would be used could also be effectively presented to the relevant publics, its global assignment might even on balance be popular. If the fuel were to be taxed everywhere at rates similar to the highest applied to petrol for road vehicles in Western Europe, the contribution that the proceeds could make to filling the Sachs Report gaps could be significant.

F. A GLOBAL CURRENCY TRANSACTION TAX (CTT)

Where aid has to be voted through national budgetary processes, each unit of its funding is competing with other public purposes. Even if public opinion within the country concerned is broadly favourable, the temptation for a government, faced with the choice, to prefer other spending items is always likely to be great. Spending an extra 0.5 per cent say of national income on aid will probably affect no one within the country directly; only the grubbers among figures are likely to be aware whether it has or has not happened, and among them only a subsection are likely to recognise what its significance may be. A similar amount diverted to domestic purposes can make tangible differences. Yet perhaps ways of transferring resources that avoid national budgetary processes and are not so explicitly competitive with domestic purposes may be discovered. It will be said that the burden of surrendering the resources must fall upon someone, and generally that is likely to be true. However, if the burden-bearers were, in spite of quite open procedures and practices, to be largely unaware of the burden and the humanitarian grounds for imposing it were good and widely approved, it might be both politically acceptable and morally justified.

One of the politically attractive features of a possible global currency transaction tax**,** at the minute rates usually discussed, is that its burden, though undoubtedly real and probably touching in some degree a large part of the world's people, would be highly diffused and very hard to detect except perhaps by high-level workers for firms in parts of the financial sector (firms whose shareholders would probably in fact carry a differentially large part of the small burden).

Given the way its implementation can now be envisaged, a general CTT as a source of global funds has a number of intrinsic political advantages. Its costs, though real and concentrated to some extent on the financial sector, will be otherwise highly diffused nationally and individually, and, because of that concentration on the financial sector, will be roughly progressive across nations. It appears now that it could be imposed given only the active cooperation of five monetary authorities, with a few others ready to cooperate if need be. This is all that would be required if the method adopted for imposing the tax is to collect it on settlements of transactions within banking systems. And it now seems that this is the method by which a CTT could most securely be implemented. This mode of imposition appears to be accepted as a possibility within the IMF staff. Objectively the political odds would appear to be fairly heavily in its favour. It might seem to qualify as a soft target.

From a world perspective, there are advantages springing from the fact that a source of funds is of 'global provenance.' A CTT (most clearly if it is collected at the point of settlement) has to be so regarded. Those authorities collecting it cannot be deemed to own it. The world will be asking them to collect the tax on its behalf. Their peoples will bear only part of its burden, and the administrative costs of collection by the settlement method would be small. If they were to keep for themselves more than a small fraction of the revenue they had collected, this would simply be theft.

Yet at the moment there are two difficulties: one technical, the other political. The technical difficulty is that there is no approach to certainty on how activity in the currency markets, and hence the revenue collected, will respond to different rates of tax. Econometric research now under way, however, may before long provide reliable enough estimates to justify less tentative implementation.

The strictly political difficulty is that the cooperation of the US would be essential whatever the method of collection. Yet the fact that in 1995-6 the UN Secretary-General, Boutros Ghali, merely mentioned the possibility of a CTT led the US Congress to pass an Act in 1996 requiring that before the US pay any assessed or voluntary contribution to the UN or its agencies the President must certify that the receiving agency has ‘not engaged in any effort to develop, advocate, promote, or publicise any proposal concerning taxation or fees on United States persons in order to raise revenue for the United Nations.’ (Raffer, 1998: 532) Such opposition is an expression of habitual hostility to any proposal that would affect national sovereignty. However, this particular animus is based in part at least on a misunderstanding. Often the CTT in the form discussed is misrepresented as a UN tax. Yet this is quite impossible: only governments can tax; the UN does not have that power. At the moment, any so-called international tax could only be the result of international agreement and would still have to be collected by national authorities. But time may be needed before that clarity and consensus can be reached.

3. OBSTACLES TO ADDITIONAL DEVELOPMENT FINANCE

Several factors, which constitute potential political obstacles to additional development finance, are considered here.

A. DOUBT ABOUT THE EFFECTIVENESS WITH WHICH AID IS USED

One source of scepticism about external financing relates to uncertainty about the effectiveness of concessional external finance in contributing to economic and social development. Critics opposed to growth of ODA, argue that past experience shows that increases will not stimulate economic growth efficiently; that much of it will be wasted; that it encourages tendencies within government to private rent-seeking; and that what is available for public purposes will discourage local effort, saving, and economic reform. It is not that extra resources are not needed: simply that this method of attempting to provide them is counter-productive.

There is now considerable solid research ammunition against a comprehensive dismissal of this sort. Recent surveys have generally reached positive conclusions about the value of ODA. For example, McGillivray has surveyed the literature on aid and growth and concludes that ‘the overwhelming majority of recent empirical studies find that aid increases growth, despite many valid criticisms of aid delivery.’ (McGillivray, 2005) Aid increases public expenditure, including expenditures that aim to improve services for the poor. Donors are tending to focus their attention on policies that assist development – more actively at least than in the past, when the objectives of aid were more diffuse. In a widely read World Bank study, Burnside and Dollar concluded that aid works when allocated to well-governed countries. Others have reached more nuanced conclusions: that aid generally benefits growth, but the benefits are greatest in countries with well-judged policies. These conclusions underlie the recent growth of confidence in the effectiveness of ODA.

In an influential paper published towards the end of 2004 Clemens, Radelet and Bhavnani divide aid into three categories: emergency and humanitarian aid; aid that could affect growth only over a long period of time, such as to support democracy, the environment, health or education; and aid that could plausibly stimulate growth within four years including budget and balance of payments support, investments in infrastructure and for productive sectors such as agriculture and industry. They find a strong, positive relationship between aid of the third kind, which accounts for 53 per cent of all aid flows, and economic growth over a four-year period, two to three times as large as between aggregate aid and growth. 'Even at a conservatively high discount rate, at the mean a $1 increase in short-impact aid raises output (and income) by $1.64 in present value in the typical country.' (Clemens, Radelet, Bhavani, 2004: 1) This clearly suggests that aid targeted at stimulating growth is likely to be effective. So a politically potent answer to this objection may require some professional and transparently honest public-relations (combining the visual and personal perhaps with a few significant statistics).

B. Hostility to globally networked governance

A second obstacle is movement of donor countries into unilateralism, as under George W Bush. American unilateralism has already constrained international organisations working collaboratively for development. The US since 2001 has opposed the creation of international forums for the promotion of common economic and environmental purposes, as for example on tax cooperation. Longer-running Congressional hostility to global governance has weakened the UN system and its finances, and constrained international initiatives that would have served common goals.

The obvious remedy, though not necessarily an easy one, is to attempt to prove to any major country inclined to unilateralism that this orientation does not pay. In other words, there may need to be an effective alliance of developing countries prepared to bargain with the US and prepared if necessary to withhold concessions within their collective gift that it would value.

C. Ideological opposition to particular measures for financing aid

There are many philosophical and ideological opponents of several of the particular innovative proposals, in addition to the general scepticism on the part of market fundamentalists over any suggestion for increasing public revenue and expenditure, such as that already mentioned in the US Congress to a CTT. The more doctrinaire neo-classical economists are sceptical of any idea that would involve intervening in markets, arguing that this would distort competition and reduce efficiency; and most taxes do in fact have some, often minor, potentially 'distorting' effect in this sense. These extreme views are of course not universally held among officials of rich-country treasuries and finance ministries, or of the

Bretton Woods Institutions and the OECD, even where they may appear to represent the prevailing view. Successful democratic politicians are only rarely ideological extremists. So there may be opportunities for developing country governments, sufficiently well-briefed and united on particular issues – and perhaps supported by non-official allies – to wear down ideological opposition. Attitudes and understanding may both need to be modified, but, even where the opposition at first seems obdurate, there may well be cracks that can be exploited.

D. OPPOSITION BY SECTORAL INTERESTS TO PARTICULAR PROPOSALS

Each of the innovative finance proposals is also likely to receive criticisms. Improved international tax cooperation was opposed by the US for a while, motivated by the opposition of corporations that had been minimising tax through use of tax havens. Fortunately since 9/11 that US opposition has been withdrawn, in order to enable action against money laundering by terrorists to be strengthened. In fact, the US has also come to oppose tax havens.

A new issue of Special Drawing Rights has been opposed by the US Treasury, whose officers apparently dislike the idea of a competitor to the dollar as the international reserve currency; by Germany, which is concerned about the inflationary impact of growth in the supply of international currencies; and by Japan, which is cautious about everything and generally acquiesces in the US position.

Banks, which are major dealers in foreign exchange, and oil companies, both especially powerful types of corporation, tend, for example, to be resistant to the proposals respectively for a currency transaction tax (CTT) and for a carbon tax. The desire of influential multinationals from certain countries not to be taxed in their home countries on unrepatriated income earned abroad has been blamed for a loophole in the tax regimes of most rich countries for this element of income, a loophole that leaves incentives for the countries in which the investments are located to reduce taxes competitively on inward foreign direct investment. Global corporations and peak business councils can be especially influential in blocking measures that they find commercially unwelcome. The general cast of remedy here is probably to make clear that the vested interests concerned conflict with the national interests of the countries whose policies they influence. In other words it is primarily information that is needed.

4. POTENTIAL SUPPORTERS FOR ADDITIONAL DEVELOPMENT FINANCE

There are also strong advocates of aid and specifically of innovative sources of finance. The questions are whether they or the opponents are likely to have greater weight in the various arenas where a contest can be played out; and if the latter, whether there are potentially effective actions that could change the balance; and, in view of judgments on these matters, which arenas are worth entering for the advocate of more development finance.

The global outpouring of contributions to disaster relief for the survivors of the Indian Ocean tsunami, which also shamed governments into increasing their aid, suggested a strengthening of support for aid. The swift global response to the disaster showed that the human instinct to help others in desperate need continues to be strong in many people, and that this can bear fruit when they are vividly enough aware of the need. The enormity of the disaster evoked substantial giving and mobilised external physical assistance from many countries. The level and extent of contributions to the appeal for tsunami victims is one of many reasons for thinking that there could be sufficient depth and breadth of concern for poverty internationally to motivate support for new and demonstrably effective ways of mobilising funds. The World Social Forums, mostly held at Porto Alegre, have repeatedly demonstrated some of the breadth and depth of concern for global social justice. This year a majority of participants in the World Economic Forum at Davos also said that poverty was the most serious global problem.

WHAT ARE THE FORCES ON THE SIDE OF INCREASING AID?

A. POPULAR SUPPORT FOR AID.

Within donor countries there has always been substantial support for ODA, the strength of which naturally varies between societies and over time. In the US, the highly industrialised country which gives the lowest amount of aid as a proportion of income, a study of public attitudes found that most Americans supported the principle of aiding developing countries, but that they over-estimated the amount given by the US by between 10 and 20 times or more. That is, the median estimate of the proportion of the US budget given as foreign aid was between 10 and 20 per cent in various surveys. In fact it is much less than 1 per cent. When those questioned were asked what proportion they thought it should be, the median response was 5 per cent, much more than five times as high as the actual level. This leads to the question of why there was such a gap between policymakers' perceptions and public opinion. Part of the explanation is that attitudes are misinterpreted. Resistance to a hegemonic role for the United States can be interpreted as a preference for withdrawal, rather than for sharing the burden with other nations. The gap persists because voters do not generally give priority to international issues when deciding how to vote; domestic issues are more important to them. Congress members' relative inattention to international matters may have been one of many factors adding to voters' sense that policymakers inside the Washington beltway were out of touch. The authors conclude that 'Americans do appear to have a sense of history, a recognition of global interdependence, and a desire to see their nation make a meaningful contribution for both selfish and altruistic reasons.'(Kull, Destler, 1998)

Readily available, accurate information is a necessary condition for public support for aid. This evidence suggests that much greater generosity may prevail if people are given enough accurate, relevant information.

B. INCREASING SUPPORT AMONG DEVELOPING COUNTRY GOVERNMENTS

Potential beneficiaries are becoming increasingly strong supporters of innovative methods of financial assistance. For example, there was uncertainty amongst the G77 (developing countries) about supporting a CTT and other innovative sources of funding during the negotiations about the content of the declaration to be issued by the special session of the UN General Assembly on social development, held in Geneva in June 2000. Yet by September 2004 over 100 countries accepted the invitation of Brazil, France, Chile and Spain to attend a summit meeting in order to discuss ending poverty and hunger. The meeting considered a report by a Technical Group of experts on innovative sources of financing (Landau, 2004). At the end, 113 countries supported the New York Declaration, which includes a paragraph on the innovative proposals:

> *"In addition to the need to raise and improve assistance levels, we acknowledge that it is also appropriate and timely to give further attention to innovative mechanisms of financing – public and private, compulsory and voluntary, or universal or limited membership – in order to raise funds needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid. In this respect, we urge the international community to give careful consideration to the report that has been prepared by the Technical Group."*

This report explores ways to find new resources for development, on a sound economic basis and at a significant level (Landau, 2004) The Declaration was not only supported by developing countries: many European countries also signed. Many national representatives were explicit in their expression of support for the Technical Report, which included analysis and positive comments about a CTT, taxation of the arms trade, the International Finance Facility, issuing SDRs and improved international tax cooperation. This meeting was the first at which most of these issues had been explicitly placed on the inter-governmental agenda.

C. SUPPORT FROM NON-GOVERNMENTAL ORGANISATIONS IN THE RICH WORLD

Many scholars, development NGOs, and faith-based, professional and social-democratic and liberal organisations from developed countries have been advocates for innovative methods of financing for a decade or more. Universities often have a conceptual interest and at the same time receive financial benefits from the fees of international students, the number of who increases with the growth of income. Private foundations are sometimes involved in philanthropy for developing countries but want dependence on their assistance to fall and so are interested in alternative funding mechanisms as well as the pace of economic growth. Anti-globalisation protesters also advocate internationally agreed taxes. The political norms of international discourse include international justice and so incline towards support. Likewise, the staffs of international organisations, including the IMF and the World Bank and UN agencies such as the ILO and UNDP, are generally, though not uniformly, supportive.

Several international civil-society and professional development networks linking concerned organisations have been effectively active for some years in supporting the tapping of innovative sources of finance. They include both the international development organisations and specialist study and advocacy groups. Potent examples include: the international Catholic development network, CIDSE; the French-based, but now more widely spread, ATTAC; War on Want in the UK, New Rules in the US, and the Halifax Group in Canada. They have major achievements to their credit. A recent development that must be encouraging for these networks and possibly demonstrates their effectiveness is the call by President Chirac for various innovative ways of financing development. Another is the passage through the Belgian parliament of statutory support for a currency transaction tax.

D. SUPPORT FROM MULTINATIONAL BUSINESSES

Many multinational corporations with interests in developing countries – through production, trade, financial intermediation, international consultancy or tourism – have also been supporters of increased aid and might well become advocates for any methods of financing that would add to aid flows without cost to their own activities.

E. INCREASING RECOGNITION OF THE IMPORTANCE AND RANGE OF GLOBAL PUBLIC GOODS

The imperatives of globalisation highlight the necessity for improvements in the provision and extension of global public-goods as well as the demands of equity, and this is increasingly widely recognised, and commonly also leads to support for innovative funding mechanisms.

5. Ways of Overcoming or Circumventing the Obstacles

Professional but transparently honest public-relations work, involving not only key relevant facts in a widely digestible form but also some immersion (through say television) in the visible and personal realities of world poverty, may be necessary to realise the potential for public support that is latent in rich countries.

Special opportunities are provided by funds of genuinely global provenance, partly because they make it relatively easy to introduce greater clarity over the purposes for which a large and definable segment of total aid will be used, partly because they permit a definable strategy to be adopted over a significant part of world development aid (which will itself have public-relations advantages), but partly also because they enable the political hurdles and hazards of national budgetary processes to be circumvented (so that the costs can be widely diffused, not readily noticeable, and sometimes zero or even negative on balance, or at least of dubious sign).

There is great potential, too, for mobilisation of the numerous governmental, commercial and humanitarian forces favouring additional development finance. Not simply pleas and protest but hard-headed negotiation will be needed; and this is unlikely to happen unless developing country governments are prepared to play an assertive leading role.

If the forces are to be mobilised, then, governments of some major developing countries must probably be prepared to take the lead, with or without the support of sympathetic affluent countries. It will be most valuable and effective if alliances, or an alliance, can be formed over a range of issues relating to poverty and development, a range that goes beyond additional finance. This will provide a richer field for negotiation, which is always more likely to realize benefits for both sides if several issues are on the table together.

Yet, though a steady alliance over a range of issues represents the ideal, solutions that appear to be second best may have to be accepted because they are available. A limited ad hoc coalition of developing countries can achieve significant victories, as demonstrated powerfully by the (new) G20 established by India and Brazil during the 2003 Cancun trade negotiations, the formation of which suggested a redistribution of power resulting from changed attitudes rather than from changes in weight. The Summit in New York called by Brazil, France, Chile, and Spain in September 2004, as mentioned above, is an example of another species: a core-alliance between countries across the 'North-South' divide, even though there are widely different interests within that group about agricultural trade. Its members may continue to act together in order to promote the study of innovative finance and perhaps, as suggested above, campaign together for the innovative sources that they judge most politically feasible. The Global Summit at the UN in September 2005 recognized 'the value of developing innovative sources of financing … on a public, private, domestic or external basis to increase and supplement traditional sources of financing.'

6. Conclusions

Two sorts of conclusion arise from this discussion: about which devices for increasing funds appear politically within range and, given their other advantages, justify concentrated assault; and on which strategies or tactics are particularly likely to help.

The most eligible immediate targets seem to be those that approach win-win improvements for countries. A prospective gain all round may sometimes result from the fact that the method for enhancing development resources also serves to advance some (other) global public good. On these grounds we should aim at:

- International tax cooperation toward certain ends, in particular (i) blocking paths to evasion (and incidentally concealment for other purposes: money-laundering) through capital flight and the use of tax havens; and (ii) removing the incentives from host countries for competitive reduction of business taxes for the purposes of attracting foreign investment.
- Regular issue of SDRs, and recycling of those that are 'surplus'.
- A universal and equal duty on aircraft fuel; with a tax on all airfares a possible substitute but one that is probably less politically appealing as well as less environmentally efficient.
- A currency-transaction tax, perhaps the most promising of the innovative methods in the somewhat longer term, seems eminently worth further work now, so that agreement might be reached on its mode of imposition, and greater certainty over its revenue possibilities and impact on the markets. But active attempts by interested governments to bring it into being might best wait for say four or five years, in order to give these developments in knowledge and thought time to mature, and to give hostile knee-jerk reactions in the US Congress time to die down.

Three elements of strategy and tactics have been emphasised, all obvious enough when enumerated but too little considered so far in the context of increasing and improving aid. They are inter-connected, and the argument for each would be strengthened by the presence of the other two.

- Professional, and scrupulously honest and accurate, public-relations material, financed if possible by private sources, combining a few hard quantified facts with personal and grassroots stories and pictures.

- Special attention to those ‘innovative’ sources of finance that must or can be allocated globally, so facilitating both a coherent anti-poverty strategy and coherent presentation of its elements.

- Mobilisation, as far as possible under the leadership of major developing country governments such as China, of support for additional development finance, and in particular for the tapping of innovative sources, with a solid source of research and intellectual back-up and a readiness for assertive negotiation in which development finance is considered together with other objectives valued by poor and rich countries.

The need to pursue a strategy argues strongly for a significantly large source of funds to be available for global disposal, and that in turn is likely to depend on so-called innovative sources of finance, especially what we have called finance of ‘global provenance’. There are a number of possible ways around the obstacles to these outcomes. Several seem potentially to be highly relevant, some especially relevant to sources of funds for global disposal.

Much depends on the readiness of the developing country governments to build effective alliances: alliances prepared to make use of support from campaigning NGOs and to draw on the expertise, ingenuity and other relevant resources of international secretariats and of potentially sympathetic research institutions and charitable foundations. To be effective, the alliances will need to be sufficiently institutionalized to be able to negotiate forcefully and rationally over sources of development finance together with other objectives of interest to various groups of rich and poor countries. It will help if an alliance has a fairly high-level secretariat of its own.

In early 2005 a debate started among the leaders of some large European economies over the methods to be adopted for releasing considerable additional funds in order to help finance a coordinated attack on the extremes of world poverty through pursuit of the Millennium Goals. The main alternatives have been the International Finance Facility and forms of internationally agreed taxes. As mentioned above, some middle-income countries have played a leading role in these initiatives, and there has been an unusual degree of consensus between the European powers promoting the moves and the major developing-country governments. Devices that seemed visionary only three years earlier at the time of the Monterrey summit are now being debated for their relative advantages. And the champions of each method (as at the Davos meeting in January 2005) have been prepared to accept combinations of their favoured solutions with others.

That is one change. A second tending to reinforce it is the increasing interest on the part of governments of developing countries in tapping innovative sources of development finance, combined with an increasing readiness of certain major developing countries to play an active and concerted role in international negotiation. Hence the possibility of substantial additional finance in the form of global-provenance funds, or of other funds that might be used under international agreement for global purposes, seems to have come closer.

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