A Global Tax: Unworkable, Unnecessary and Dangerous

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Abstract

A global tax, usually a variation of the Tobin tax, has been proposed for many reasons, including: to reduce global financial volatility; as a necessary step towards a global financial architecture; and, typically, to fund international organizations and development efforts. Specifically for a Tobin tax, economic theory and evidence presents as much reason to believe the tax would increase as decrease volatility and create a number of trade and financial distortions. This paper then reviews other proposals for a global tax, the difficulties they would create for global trade and finance, and the intractable problems a global tax would face in governance, collection and distribution. The paper argues that, at the current stage of global political evolution, no appropriate governance structure could be constructed to collect, administer and distribute the tax. The paper also examines public choice theory to argue that the availability of funds from a global tax would likely shift emphasis away from development policies that work, based on reform of domestic policies, to rent-seeking activities and back to the failed approach of government-directed development, weakening efforts to expand economic, political and civic freedom.

INTRODUCTION

This paper will argue that the establishment of a global tax faces intractable problems every step of the way, from implementation to collection to administration. The most dangerous difficulties lie in the related issues of governance and distribution of tax receipts. Discussion of these issues, using the tools of public choice theory, forms the heart of this paper. The issues raised trouble virtually every possible version of a global tax.

Before proceeding to these areas, however, some groundwork must be laid. We will first look at the various tax proposals, from the Tobin tax to what might be thought of as the menu of Mendez taxes (Mendez 1992 and 1997). This will be followed by a brief discussion of tax avoidance. Next the paper will tackle the question of a "large" or a "small" tax, a seemingly central and obvious question but one surprisingly seldom addressed comprehensively in the literature. Often, for instance with the Tobin tax (or some alternative tax), it is asserted the revenues will be potentially large. Then it is argued the impact of the Tobin tax (or alternative tax) itself will reduce revenues. Then no firm position is taken. (See, for example, Spahn, 1996.) The reader is left to speculate about the magnitude of the tax being proposed, hardly an insignificant question. After the above groundwork is laid, the paper will turn to governance and distribution issues.

In many ways, global tax is the quantum particle of international finance. Instead of being able to pinpoint the proposal, all the observer sees is a fuzzy smudge. The *full* set of relevant questions is never answered. What will be taxed? Who will set tax rates? Who will collect the tax? Who will distribute tax receipts? How will this "who" be governed? What principles will inform distribution? How will systemic tax avoidance, itself, be avoided? Will the tax collect a lot of money (and perhaps fund global development) or a little (and perhaps just fund international institutions)?

Whenever one question is answered, other information disappears. One writer may propose a tax to solve a supposed market failure (on pollution or short-term capital flows) but not specify how revenues will be spent. Another writer may argue for a global tax to finance development, but not specify the tax. Nor are institutional or distributional questions are comprehensively answered. Will the money go to the poorest of nations? Since the poorest nations typically have the most repressive governments, which are responsible for the poverty, will the money go to the most repressive regimes and become a subsidy program for the suppression of democratic rights? To some extent this paper, commissioned to take a negative position, must reflect the weaknesses of the global tax proposal since it must deal with this elusive proposal in its many guises. Otherwise the proposal will pop back onto the page with a new spin, and tax proponents will argue their real proposal has not been addressed.

It may also seem the paper will be forced to develop a negative tone, since it stands in opposition. But this is not because there aren't important things the developed world and international bodies should be doing to promote the interests of *the poor* in lesser-developed countries (LDCs). Indeed, I would agree with many proponents of a global tax that relieving global poverty and strengthening civil and democratic rights are the greatest human challenges facing us today. And, like them, I would argue that action by the developed nations can help in meeting these challenges. But, I would point to policies and principles that have a proven track record of working. Some of these issues will be discussed in the closing sections.

TYPES OF TAX

Tobin Tax

The Tobin tax was originally proposed to dampen international currency fluctuations by reducing flows of short-term capital. Revenue raising was a relatively unimportant sidebar to the main story. Many proponents initially believed the tax should be collected and spent by domestic authorities in each nation. This would sidestep many of the public choice problems related to a global tax raised later in this paper while opening up a new set of public choice problems. Since the discussion here clearly focuses on a global tax for global purposes, the alternative set of problems created by domestic collection and distribution of the tax will not be examined.

Although discussion of a global tax in the popular press and academic literature became ever more muted as the Asian crisis faded, the Tobin tax appears to have drawn the greatest attention and the greatest support. Thus, it warrants a careful look. The impact of a Tobin tax on the world financial system is inseparable from the merits or demerits of the tax. It is true that “overshooting” is often a characteristic of market economies. It is also true that market economies are self-correcting. Those who make the errors pay the cost, learn their lesson or go out of business. Those who make correct decisions gain in prosperity and in their place in the market. Of course, some financial institutions get bailed out or have their exposure reduced. Nonetheless, they still take a hit, as do the managers involved. This provides strong incentives to avoid mistakes in the future, even if some level of moral hazard is involved.

This self-correcting mechanism is very different from the self-perpetuating mechanism of government actions as described in public choice theory. Occasional market overshooting hardly appears to have had damaging consequences when the success of market oriented economies is compared with the failure of government directed economies, which claim to have solved overshooting and other market failures.

Because of learning, each market crisis tends to be unique. To give an impressionistic sketch, the debt crisis of the 1980s was due to recycled petro-dollars and unrealistic assumptions about the chances of a sovereign state defaulting. The Mexican crisis evolved out of politics, bad government information, and bad policy. The Russian crisis involved domestic politics and corruption, international power politics and confusion in international bodies. Only the Asia crisis, perhaps, was mainly caused by destabilizing short-term capital flows, but even here crony capitalism, corruption, and lack of transparency were all necessary ingredients. The three most worrisome crises at the time of writing – in Japan, Argentina, and Turkey – were not caused by short-term capital flows. Argentina's pegged currency crisis is similar to old-style fixed currency crises, though this is a problem with government policy rather than unresponsive markets. The financial problems in Japan and Turkey are related to the refusal of policy-makers to clean up a financial mess related partly to overshooting, but also to corruption, cronyism, and opaqueness.[1]

This points to a problem created by responses like the Tobin tax. Much like generals, policymakers tend to fight the last war. And their inflexible strategies are likely to backfire in the face of new developments – a problem with the Tobin tax, as will be discussed shortly. One clear lesson that should emerge from the past is that heroic government responses to overshooting and other supposed market failures often end in tragic failure. For example, government policy in response to what should have been a market blip in 1929 – albeit a serious blip – led to a worldwide depression. International trade was attacked, in part to restore "stability." In the United States, which could have been a global engine of growth, bad monetary policy and a perverse policy of wage inflexibility crippled markets' ability to respond to adjust.

In post-war decades, the desire to eliminate supposed market failure in economic development in third world nations has had disastrous consequences for these nations. The wave of dirigisme, which swept the developing world and much of the developed world in the second half of the 20th century, and its consequences are witness to this. Gunnar Myrdal captures the attitude that was to inform development economics in the post-war period until researchers turned their attention to the empirical evidence. "The special advisors to underdeveloped countries who have take the time and trouble to

[1] Policy-makers, who may have incentives to put off dealing with policy problems, appear to learn less quickly than market participants, who have an incentive not to repeat bad decisions. Certainly, for example, policy-makers in both Turkey and Japan could have learned valuable lessons from how the United States cleaned up its savings-and-loans crisis with little collateral damage to the economy. Argentina policy-makers pegged their nation's currency to fight inflation, not as part of a global structure, but they seem not to have anticipated a repeat of problems that occurred under fixed exchange rates.

acquaint themselves with the problem … all recommend central planning as the first condition of progress."[2]

Nor is it unambiguously clear that overshooting events, like the Asian crisis, are entirely bad things.[3] While this not the place to discuss the Asian crisis in detail, the crisis appears to have put a salutatory dent in corrupt, crony, cartel and other perverse forms of capitalism, which, as well as weakening the economy, also reduce freedom and concentrate power in undemocratic, government-connected, elite networks. Reform can be spurred when bad institutions and policies are exposed to market forces. They can be deferred when institutions and policy are sheltered from the market, a key aim of the Tobin tax. The biggest policy failure emerging from the Asian crisis involves governments' refusal to reform fully and their continuing attempts to protect local rent seekers. The cleansing was not thorough enough.

Equally, the debt crisis of the 1980s may have had some positive effects. "The debt crisis provided a rationale for drastic economic restructuring in the developing countries, from import substitution industrialization (ISI) to export oriented industrialization (EOI), and from economic regulation to market orientation…. By the early 1990s, about 70 countries had embarked on structural adjustment programs" (Maswood, 2000, pg. 198).

This is not to argue that all market crises are "good," but rather to note that they carry "costs" and "benefits." A cost-benefit view of them would produce a lower net calculation of cost, and thus might dampen some of the hand wringing and de-stabilizing proposals that inevitably follow a crisis. Moreover, crises often evolve from some market flaw. The correction of that flaw by market forces themselves – which, as noted, tends to make each crisis unique – likely bears much lower long-term costs and higher long-term benefits than papering over the flaws. In most instances, for example the Asian crisis,

[2] Pg. 201, *An International Economy: Problems and Prospectives.* New York: Harper. Quoted in Dorn, 1998. pg. 2.

[3] The same also might be said of the recent stock market "high-tech bubble." Market exuberance may well have funded a number of promising technologies – which will produce benefits for us all – that would not have been otherwise funded. The losses are primarily being borne by the speculators, who knowingly accepted high risk in return for potentially large gains.

problems were precipitated by the refusal of policy-makers and rent-seekers to clean up their acts. Market discipline, and the consequences of past problems, makes reform more likely, both in cleaning up past messes and in tackling reforms needed to prevent future crises.

Policy-makers, when they confront a perceived market failure, have a number of options. They can attempt to assert government control over the market. They can try to suppress the market. They can do nothing, on the grounds that learning (and the incentive structure that backs learning) will mitigate future problems. Or, they can attempt to remove market impediments – i.e., promote more efficient markets rather than less efficient ones through government control or suppression. Tobin tax promoters take a mixture of the first two approaches. For example, Kaul et al. argue:

> Interfering in markets always leads to a loss of efficiency. Yet there is one important proviso – this is true only if those markets are proven to be efficient to start with. Where markets do not function the way they should, we have no proof that intervention leads to a loss of efficiency … (pg. 5, 1996)

Unlike Tobin tax proponents, most policy-makers are now focusing on promoting more efficient markets – not anti-market cures like the Tobin tax – to avoid another Asian-crisis like occurrence. This involves well-known measures like greater transparency and accountability and the dismantling of government-crony capitalist networks. (See, for example, United Nations, August, 2000.) This would produce benefits that range well beyond mitigating the threat of another crisis, and avoid the negative and dangerous consequences of a Tobin tax, as discussed below.

The Tobin tax combines government control with an attempt to suppress a market, specifically, the market for short-term capital. Herein lies the great danger. Proponents of the Tobin tax seem to believe that short-term capital flows are separable from long-term flows, investment and trade. Impeding short-term flows will dampen currency speculation and nothing else, they argue, though usually by implication. Yet, economic theory and evidence shows that impeding short-term flows is likely to inhibit market adjustments, potentially transforming a temporary blip into a long-term disaster, just as bad policy transformed a recession into a global depression in the 1930s. Certainly, adjustment to currency problems of the 1990s seems to have occurred faster than most anticipated and to have produced some long-term policy benefits.

However, the connections between short-term and other types of capital flows are much deeper than this, far more complex, and certainly not well understood. Those involved in global trade must be able to depend on reliable payment. Thus, the use of hedges, options and the whole galaxy of short-term financial instruments. The financial instruments that back the sales of an Indian shoe manufacturer or a Korean electronics firm or a Japanese chipmaker are seldom simple instruments. The odds of any one trader finding another trader who wants to make the exact opposite hedge are vanishingly close to zero.

Instead, the financial intermediary through which hedging is arranged will hold a bewildering array of financial instruments in order to supply the financial services demanded and to balance its own risk. The intermediary will also undertake arbitrage though a complex network of instruments. This also benefits the market by helping to stabilize prices. And, of course, many institutions will undertake speculation on their own behalf and intermediate speculation by their customers. This is not necessarily a “bad”. Speculation deepens the market for and adds liquidity to hedging instruments. It is also integral to the process of arbitrage. Just as arbitration can add stability to prices, by equalizing them across time and space, speculation can add stability by, for example, bringing some prices changes forward in time and spreading them over time and space. All this activity will typically involve short-term currency movements.

Given that a single hedge implies a multitude of short-term positions held in financial institutions’ portfolios, a Tobin tax would be more like a case of multiple taxation, not just double taxation. Thus, a Tobin tax would cascade through this complicated structure, with unknown consequences for hedging prices, availability and liquidity, and also with unknown consequences for arbitrage. That means there are also unknown consequences for currency movements, given the potential impact on arbitrages and speculation. As Kasa, 1999, notes: “[A] small and enforceable Tobin tax could virtually shut off short-term capital flows” (web version, pg. 2).

Maybe hedging won’t be necessary, given a Tobin tax’s supposedly stabilizing effect (though, as noted, this itself is dubious). But, currency prices aren’t the only prices hedged through short-term capital flows. Nor are currency crises only caused by short-term capital flows, as history demonstrates. And, even if they were, even small price fluctuations can be devastating for unhedged buyers and sellers. Thus, a Tobin tax, with its negative effects on short-term capital movements, and thus on hedging and arbitrage, could have a disastrous impact on global trade.

As well as long-term damage, a Tobin tax could also spark short-term chaos as market players try to shift to untaxed and safe instruments. In particular, the implementation of a Tobin tax might well cause a flight to safe currencies, like the U.S. dollar, since after imposition it become costly to move money around and investors would want to park it in a currency of little risk, given the unknown consequences of a global tax.

The Tobin tax itself, however, is a fuzzy object. Proponents seldom specify exactly which short-term flows or types of instruments would be taxed. Taxation on just a few instruments could create instability and price increases as buyers and sellers attempt to shift to untaxed, but potentially less efficient instruments. As well, there is no talk of following the principle of taxation that marginal rates should be equalized. Nor is there anyway to know how to do this. Thus, both the weight of the tax and the structure of the tax will introduce trade-limiting distortions on the world market.

Of course some argue the whole financial infrastructure is unnecessary and should be done away with through government action so that all these “wasted” resources could be used productively. (See, for example, Stanford, 1999.) However, if some financial group could cut staff and offer safer and cheaper hedging instruments, they would, and thus reap the profits. As Douglass North (1998, pg. 101) has noted:

> To realize the gains from productive potential associated with a technology of increasing returns, one has to invest enormous resources in transacting. In the United States, for example, the labor force grew from 29 million to 80 million between 1900 and 1970. During that period, production workers increased from 10 million to 29 million, and white collar workers (the majority of whom are engaged in transacting) rose from 5 million to 38 million.

To sum up, there is no theoretical or empirical reason to believe that a Tobin tax would eliminate large currency swings. It might well make them worse and, on top of that, remove the market's ability to adjust to them. A Tobin tax would likely have a seriously detrimental affect on world trade through its impact on risk-reducing instruments and arbitrage. That is a dangerous result, given the economic liberation world trade offers developing nations. Stotsky in her brief article gives an impressionistic sketch of some of the arguments developed above.

> "[E]mpirical observations do not provide a basis for asserting a firm link between transaction costs and volatility. Even in the past, when transaction costs in financial markets were generally larger than today, fluctuations in capital flows and prices were observed…. The main argument against financial transaction taxes is that they reduce market efficiency…. Such taxes could impose a cost on financial markets by creating a disincentive to trade assets by inducing investors to hold a less desired portfolio and by potentially reducing stabilizing arbitrage. Moreover, these taxes would increase the cost of capital, and thereby lead to lower rates of capital formation and economic growth. (1996, pg.2)

Equally as bad is another fallout from the preceding discussion. A Tobin tax could seriously damage foreign long-term investment, another trade-related avenue of hope for developing nations. Investment is typically intended for export markets. The ability to take advantage of these markets depends on reliable pricing, obtained through hedging and other financial instruments. If their availability declines and price increases, long-term investment becomes less profitable and more risky.

Mendez Menu

Ruben Mendez has proposed a menu of alternate global taxes (Mendez, 1992 and 1997). This sub-section examines these proposals.

General tax on international trade

This is an ambitious tax. “A general tax on international trade would take the form of levies on trade crossing international boundaries, the tax base to consist of both goods and services, including invisibles” (Mendez, 1992, pg. 215). Avoidance is dismissed as a problem. “If a particular country refused to tax its imports, its trading partners could levy taxes on their exports to it” (Mendez, 1992, pg. 215). Such a scheme – in effect calling on one nation to collect a tax on another nation – would be a recipe for conflict, both between states and domestically between the taxing authorities and domestic producers who would prefer their products go duty free, particularly if the political imposition of a global tax by the exporting nation led the importing nation to reduce or embargo the import of the goods and services in question.

Problems related to re-exports, trans-shipments, capital goods used in development, and nations like Singapore which are heavily dependent on trade could be easily solved, Mendez claims. “Here a system of exemptions or deductibles and graduated rates could be applied to ensure and increase acceptability.” The complexity of such a code across some 200 jurisdictions,[4] each with their own special pleadings, is mind-boggling, as is the international squabbling such a code would create, even aside from the question about how it would be negotiated.

Determining national boundaries – for the purpose of cross-border taxing – highlights the above problem, both practically and politically. Just consider the case of Taiwan and China. But – even more troublesome – consider large nations like the United States or the European Union (EU), which Mendez suggests could be treated as a single entity for the purpose of the tax. Internal trade – what once would have been considered international trade in the case of the EU – would move tax-free. Only a small proportion of what once was international trade would be taxed. This means large nations, like the EU, the United States, and China, would be disproportionately favoured, while small nations like Columbia or Uganda would bear a proportionately large burden.

The answer Mendez suggests above is adjusted taxes. Consider the implications. Since much trade in, say, the EU would be classified as internal, and not taxed, the EU's international trade would have to bear high levels of taxation to compensate for the untaxed internal trade. In other words, trade from (or to) the EU would have to bear a much higher tax than trade from (or to) Columbia. Large nations would either get off lightly, paying the same rate of tax as smaller, trade-dependent nations, or the exports of large nations would be penalized by a much higher, and highly distorting, trade tax. The trade of big nations would be discriminated against, much to the detriment of world trade and developing nations.

This is not a viable result. It would also introduce any number of potentially dangerous distortions in world trade. For example, it would create penalties for international trade – which most benefits developing nations – in relation to trade within the EU (or the US, etc.). Any possible solution would be so rich in complexity, economic distortion, and the

[4] The United Nations has 189 members while the World Bank's World Development Indicators CD-ROM lists 206 "countries".

potential for conflict as to be unworkable, though it would be beyond the scope of this paper to list all the possible solutions, their complexity, and how conflict would arise.

There are also problems of valuation, currency of valuation, coordinating customs collectors in 200 jurisdictions, remittance, corruption, virtual goods, e-trade, etc. Mendez dismisses all these problems. "[A]s in the case of national taxation – where the most complex systems exist – they [technical problems] could presumably be dealt with in various ways. There is no reason why a system of international taxation could not be *technically* feasible, even in the face of intricate administrative problems" (Mendez, 1992, pg. 216, emphasis in the original).

Aside from anything else, the problem of discrimination against the trade of large jurisdictions discussed above is hardly an administrative problem. Nor are the "intricate" systems developed in advanced nations a viable model for a global tax, which would be strung across a couple hundred jurisdictions, many of which have problems collecting even the simplest tax in an uncorrupt or effective manner. In fact, such a tax would be a gift for corrupt practices worldwide. Even if the problems were tractable, the size of the bureaucracy needed to collect, administer and police this tax would be beyond reason.[5]

A Tobin alternative

Mendez does not believe a Tobin tax is viable but proposes an "alternative, tapping the same extensive base as the Tobin tax" (1997, pg. 298). He suggests a Foreign Currency Exchange (FXE). He believes there is a market failure between the dealers' market and the end users market, creating a gap of six to seven basis points. However, if such a gap existed for no reason, profit-seeking institutions would rush in to fill it, given that the gap is well known. It is unclear whether Mendez believe FXE transactions should be taxed or whether profits made off the gap would provide the desired funds. It is also unclear whether use of the FXE would be mandatory or voluntary. If the latter, and if the gap really does exist, private sector competitors would quickly move in to undercut the FXE. If mandatory, the FXE could create all the problems for world trade and investment discussed with the Tobin tax, given that Mendez acknowledges the end users are "industrial corporations, importers, exporters, portfolio managers, and individuals" (pg. 299).

Tax on surpluses in balances of trade in manufactured goods

The idea here is to shift the burden towards developed nations. Thus, when developed nation A sells $100 million in manufactured goods to LDC B, which sells back only $40 million in manufactured goods, a tax is applied to the $60 million surplus. This obviously is plagued by the same difficulties as would face a general international tax plus added complications of calculation and definition.

It also has several perverse effects. The key one is that it penalizes trade in manufactured goods between advanced nations and developing nations. Given that imports of machinery and equipment are a key generator of growth in LDCs, the consequences will be negative for economic growth in the poorest nations. As Rodrik, specifically referring to imports of machinery, notes: "Cross-national evidence indicates that the social returns to equipment investment are particularly high: well over 50 percent…" (1999, pg. 27).

Tax on the brain drain

Every time a skilled person from a LDC immigrates to an advanced nation, that advanced nation would have to pay a head tax either to an international body or as compensation to the "exporting" nation. Former communist states and dictatorships to this day like to erect barriers to keep their people in. This would implicate the whole world in such a scheme. It would likely lead to some level of a trade in people as dictatorships "sold" talented people and dissidents to advanced nations. This scheme is unethical, not to mention the

[5] Mendez also suggests a tax on specific commodities. This would face the same problems as a general trade tax, plus some others. It would also discriminate against poor commodity-dependent nations. For this

problems related to calculation (what is an engineer worth as opposed to a teacher?), to refugees (do we pay for talented refugees?), and to policing in general. Moreover, such a scheme could reduce the flow of remittances from expatriates to LDCs, often an important source of family and community support, as well as of foreign exchange.[6] As well, the international movement of people is a way of spreading expertise and knowledge, including by expatriates returning to the nation of their birth.

Pollution or use-of-commons tax

The problems in calculation, administration, governance, collection, and disbursement, all discussed elsewhere in the paper, apply here. A carbon tax is the most likely "pollution tax" candidate, but the science of global warming is still controversial. Although there is now a broad consensus that human activities are raising the global temperature, there is no agreement on the magnitude or even whether the changes will be harmful. Given that a global carbon tax large enough to change behavior away from carbon-producing fuels and generate significant revenues would create a massive global economic disruption, the precautionary principle should apply. We should not risk global growth – at the cost of keeping millions in abject poverty – because of unproved science about the impact of global warming. On the other side, environmentalists, who very much want a global carbon agreement, will be correctly distressed if the debate on greenhouse taxes gets hijacked by a debate on global taxation.

Mendez also suggests a tax on the world commons – airline overflights, the oceans, the electromagnetic spectrum, parking spots for satellites, etc. Here, aside from the problems already noted, the tax falls on world trade or communication, two of the most powerful factors spreading new information and wealth. Taxes on Antarctica, commercial fishing and the like would be virtually impossible to negotiate and would hardly produce the sort of revenues needed to justify the costs of implementation, administration and collection.

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reason alone, the tax is a non-starter and will not be discussed separately.

A tax on the military or the arms trade

Imagine Iraq rushing forward to declare its weapons of mass destruction, or Israel revealing its nuclear program, so these nations can pay their fair share of the global tax on arms. This idea increases incentives to hide arms programs. It would penalize nations that are honest about their arms programs and benefit nations that are dishonest. (United Nations tax inspectors are not likely to have more luck than United Nations arms inspectors.) The tax penalizes nations that arm for self-defense, or peacekeeping, equally with those that arm for aggression. (Imagine trying to tie the tax to whether a nation was "aggressive" or not.) And, it would place a disproportionate burden on some of the poorest nations in the world, which are proportionately some of the heaviest armed.

A similar proposal is to tax the international trade in arms. This creates penalties, similar to those discussed above, for nations that are honest about their arms programs or arm for self-defense or peacekeeping. It creates rich opportunities for smuggling and corruption, not to mention fun with the naming game for definitions of what are arms and what are not.

Administration, Collection and Tax Avoidance

The statement quoted earlier – that advanced nations have complicated tax codes so administrating a global tax is easily within the realm of the possible – is typical of the way the literature on global tax dismisses this intractable problem. As noted, administering a tax across a couple hundred jurisdictions – with differing procedures, rules, definitions, and levels of corruption, internal tax avoidance, competence, willing (or unwilling) compliance, and underground sectors[7] – is a task of unimaginable complexity. It should also be noted that advanced nations have found that complicated

[6] However, Mendez (1997, pg. 300) states that it is labouring expatriates, rather than professional ones, that make remittances to the home nation. No reference is provided.
[7] Avoidance, compliance, corruption, and underground activity are all differing, though often overlapping, problems with tax collection.

tax codes have negative effects on economic activity. Many are now trying to simplify their tax codes.

Problems with tax avoidance are similarly dismissed. Proponents claim that developed nations have been able to deal with tax avoidance problems, therefore global tax collection should be no problem. This forgets that many developed nations face difficult avoidance problems and expanding underground economies. A global tax perhaps would be collected by domestic agencies, using apparently identical rules and procedures across all the differing jurisdictions, with their differing rules, procedures, corruption, etc. Or, perhaps, some global bureaucracy with the cooperation of domestic governments and agencies will collect it. In any case, it is difficult to conceive of the problems across some 200 jurisdictions, many with quite rudimentary, corrupt bureaucracies – bureaucracies that will either be called on to administer and collect the global tax or at least provide information to the global tax collector.

These problems are largely ignored in the literature on the global tax. Often, it is argued the only problem would be with legal avoidance, specifically with opting-out nations, and that is a problem that should not be underestimated. However, the greater problem concerning legal avoidance would be intelligent manipulation of the rules, shifts to untaxed transactions (with unknown economic consequences when market participants abandon more efficient instruments for less efficient instruments for tax reasons), not to mention the growth of international gray and black markets. Any of these proposals are also an ideal way to subsidize, in effect, global bribery and corruption.

Large or Small Tax

There is some ambiguity in the literature about whether a global tax should fund global development (and/or infrastructure) or just global institutions like the United Nations. Whatever the funding shortages faced by international institutions, the imposition of a global tax to solve them seems like using a nuclear weapon to swat a mosquito. The cost of administering and collecting such a tax might well exceed the funds directed to other international bodies. Moreover, if such a modest tax were imposed, there would quickly be calls for its expansion.

For the following discussion, it is assumed that the political costs of creating a global tax, the initial costs of establishment, the costs of administration, collection and enforcement, etc. could not be justified by a tax designed just to fill a largely administrative funding gap. This position is consistent with statements by perhaps the two leading proponents of a global tax, Ruben Mendez and James Tobin. Mendez (1997, pp. 284 and 299) notes that the United Nations' yearly budget equals about \$1.3 billion. His revenue estimates for a tax either on international trade or financial transactions range between just over \$40 billion to about \$400 billion.[8] Tobin (1996, xvii) suggests a tax revenue of somewhere between \$40 billion and \$300 billion. This paper, in the upcoming discussion of governance, therefore takes the position of those who propose a global tax for global development. Nonetheless, the problems a global development tax creates for governance are in many cases shared by a more modest tax.

Section Conclusion

A key feature to note about all the global taxes proposed is that directly or indirectly they fall on international trade. In reality, a global tax could only levied on some aspect of global exchange. It is difficult to imagine any nation, democratic or not, allowing a global body, largely dominated by undemocratic nations, to impose taxes on internal activities – for example, an income tax or sales tax. However, a tax on global exchange runs directly contrary to the movement of the last few decades towards freer global trade. The benefits this brings for LDCs are now well known and studied. (See last section for references.) To the extent that such a tax reduces global trade, it also reduces the opportunities facing poor people in the poorest nations. Moreover, each tax creates additional distortions and problems that would magnify its negative impact on global trade. As discussed above, and further discussed below, the tax would be damaging for economic growth policies

[8] This is a little bit muddy. There may be a typographical error in the article.

which have been shown to work while turning in a direction that has been shown to fail, external aid and publicly directed economic growth.

GOVERNANCE

The concept captured by the slogan, “No taxation without representation”, has hardly produced a voluminous literature since *The Federalist Papers*. In nations that are democracies, the principle is broadly if imperfectly accepted, as it is in nations evolving towards democracy. In non-democratic nations, taxation without representation is simply the norm, something that will be changed when and if democracy emerges. Nonetheless, the principle appears well accepted. The debate is muted because it is part of life in democracies and one of a large package of defects in non-democracies.

However, the proposal for a global tax brings this concept front and center again. It would make the democratic nations of the world party to imposing a tax not just on their own citizens but also on a much greater number of global citizens, those in undemocratic nations who have no representation. A global tax would be accepted and imposed by their ruling elites. To make matters worse, the tax will almost certainly harm the “unrepresented” people in LDCs on whom it is being imposed, much more than it will affect people in the developed world, who at least can vote out their governments and presumably quit the global tax structure. LDC elites will claim the global tax, and the aid it generates, benefits their people, but the elites are most likely to use it to promote policies that harm the poor, as discussed below.

Any democratic nation should reject being implicated in the imposition of such an undemocratic global tax. Yes, it is true undemocratic nations already collect taxes – along with a number of other rent-seeking activities supported by government power – from their people. However, that is no excuse for democratic nations to be party to “taxation without representation”, any more than democratic nations should help undemocratic leaders lock up dissidents.

Perhaps imposing a "global" tax only on democratic nations whose people will at least have some representation could solve the problem. This defeats the idea of a global tax by definition. It would also relieve undemocratic jurisdictions, including rich ones such as Saudi Arabia and Hong Kong, from financial responsibility. In any event, as noted, all global tax proposals involve taxes on some sort of international movement. Given the complication of global movements, whether of trade or capital, trying to separate out only those movements that involve democratic nations would present intractable problems. It would also create rich tax avoidance opportunities.

So, any global tax will involve democratic nations acquiescing to a structure in which the tax is undemocratically imposed on the majority of world's population. This problem cannot be dismissed by arguing that people in democratic nations will pay the bulk of the tax. This may be true, but it doesn't by any means imply that people in democratic nations will bear the greatest burden of the tax. For any truly international tax, it is impossible to say with precision where the burden will fall. Clearly, any taxes on trading, financing, externalities, etc. will be passed on to the consumer and the producer, both in developing and developed nations. The burden could well be very high LDCs for two reasons. Small tax revenues from a very poor nation could create a greater burden and higher marginal rates than much larger tax revenues from rich nations. More important are the indirect effects. Trade is a key route out of poverty for LDCs. All international taxes in one way or other fall on trade and thus to some extent suppress trade and opportunities for people in LDCs.

Public Choice Quandaries

Now, let's turn to the governance structure. Imagine first a governing body like the United Nations, or its UNDP arm, something Mendez (1992 and 1997) seems to support in his discussion of international taxation.[9] "Through these [UN bodies like the UNDP], … the United Nations has the greatest scope of any international organization" (Mendez,

[9] We will discuss his proposal for a bicameral legislature later in the section.

1992, pg. 19). This brings us again to an asymmetry in any international tax. While both the burden and marginal rates may, or may not be, higher in poor than rich nations, the bulk of the tax will clearly be from sources in rich nations. Yet, under this governing structure, undemocratic nations, which outnumber democratic ones, will control a tax collected primarily from democratic nations. In other words, control of this tax – collected on the backs of six billion people – will fall into the hands of members of the ruling elites – numbering a few tens of thousands of people – in undemocratic nations.

I used the word “control” in the preceding sentence. We need to employ a few tools from public choice theory to explain this. But, first a disclaimer. Public choice literature often reads as if public servants are evil self-interested creatures, happy to damage the public good for their own gain. This is wrong. Human beings on all sides of any debate are complex creatures that tend honestly and with good intentions to find themselves drawn to positions that advance their own interests. This is hardly unique to government. It is found even in areas where objective markers exist, unlike in most of the government realm. It is the reason for double-blind tests in medicine and why it is said, with only some exaggeration, that changes in scientific paradigms are only fully accomplished when the old generation dies. The need to understand incentives is based on human nature, not bad intentions.

A global tax will create a large pool of money with any number of rent-seekers hovering around it. However, advanced democratic nations, in a direct sense, will not be among these rent-seekers. The pool will be relatively small potatoes for advanced nations, which are not meant to be the recipients of it in any event. Clearly the fund will not go to “development” in developed nations. Even if the fund is earmarked for global “infrastructure,” it will not be spent on such infrastructure in advanced nations, which will be expected to build their own infrastructure.

FREEDOM AND PROSPERITY

As discussed in the main body of this paper, the greater the relationship between poverty and repressive governments, the greater will be the rent-seeking in any body governing a global tax and the greater will be the use of tax receipts for perverse purposes. Repressive regimes would face large incentives to rent-seek for the benefit of members of their elites in order to maintain their power and wealth and to prevent reform, which would weaken both. As well, the poorer these nations are, the greater their "moral" call on tax revenue. And, the greater the number of undemocratic, poor regimes relative to rich, democratic regimes, the greater the ability of rent-seekers to capture development flows from any international governance structure.

To provide a sense of the seriousness of the public choice difficulties, I have looked at the 113 nations for which data on GDP and three key indicators of democracy and liberty are available. These indicators are: Economic Freedom, found in *Economic Freedom of the World* reports, (Gwartney and Lawson, 2001), and civil liberties and political rights, both found in *Freedom in the World* reports (Karatnycky, 2000). GDP data is from the World *Bank's World Development Indicators: 2000* CD-ROM. All data is from 1998 or 1999. GDP is based on purchasing power parity based on the purchasing power of a U.S. dollar in the United States.

This list presents an overly optimistic vision of the world. The United Nations has 189 members. Those member nations for which data is not available tend to be the poorest and most repressive of the lot, states like North Korea, Iraq, and worst failures from the old Soviet block. A complete list would thus show an even greater relationship between poverty and repressive regimes and a greater numerical superiority for these nations. Nonetheless, even excluding these states the data support the public choice difficulties described in the paper.

Of the nations in the top two quintiles of per capita GDP, all but seven rate as free by Freedom House's measure. The also have high levels of economic freedom. Well over two-thirds of the states in the bottom three quintiles are either unfree or only partly free and will thus will either be dominated by their elites or, typically, have elites struggling to remain in control. They have low levels of economic freedom.

Freedom House measures both political rights and civil liberties out of seven, with 1.0 representing the highest level. Nations with scores over 3.0 are judged to be only partly free; those with scores over 5.55 are judged to be unfree. Economic Freedom is scored out of 10, with high scores representing more freedom.

Quintiles	GDP per capita	Economic Freedom	Political Rights	Civil Liberties
Bottom	$946	4.91	4.23	4.36
4th	$2,853	6.09	3.45	3.73
3rd	$5,458	6.02	3.04	3.35
2nd	$11,428	7.00	1.78	2.39
Top	$23,278	8.14	1.57	1.83

In short, advanced democratic nations will have little if any direct concern about the funds. While these nations may have some views about accountability and how the money is spent, this will not be a priority, nor with rare political exceptions – perhaps after some very disturbing activity by the fund – will voters in these nations demand close accountability. Thus, advanced nations will have few incentives to seek money from the fund or police it. The key incentive these nations will face is a perverse one. The only self-interest developed nations can advance is through trade-offs with recipient nations for political favours.

On a relative scale, the funds will be huge from the perspective of LDCs. And, the monies will be earmarked for LDCs. This creates immense incentives for LDCs to spend resources seeking to control or influence for their own benefit the disbursement of these funds. Even if the funds are earmarked for infrastructure, the monies will be highly fungible, as aid has been in the past. (See for example, Boone, 1994, and Dollar and Prichett, 1998). As well, conditionality in general has proved ineffective and often counterproductive. (See for example, World Bank, pg. 193, 2001; Devarajan et al., 2001; and Boone, 1994.)

The incentives for LDCs to seek control of these funds are even larger than they may appear at first blush. That is because most LDCs, as noted, are not democratic, or only partly democratic. Their governments are most concerned about their ruling elites plus the rent-seeking, dependent lesser members of the elite, usually a few thousand in each nation and perhaps a few million people worldwide. (This draws a distinction between the ruling members of the elite, often with only a few hundred members, and the secondary elite of successful rent-seekers.) Given the relatively small numbers of people in the primary and secondary elites, the incentives for capturing global tax receipts are immense for members of these elites. Not only will LDCs have large incentives to seek control of the fund, they will have the numerical ability to take control by vote trading among themselves, forming voting blocks, and a willingness to sell their votes to advanced nations either in the tax governing or other international bodies to obtain their acquiescence. Given the global population structure, this conclusion holds whether voting is by one-nation-one-vote or based on population.

Brunner examines such incentives, which clearly apply with greater strength the greater the possible gain, which in our case is large for undemocratic LDCs and small for developed nations, except to the extent that they can trade their support on tax distribution issues for political advantage on other issues. “There is hardly a political institution that does not have consequences for the distribution of wealth. Agents respond to this fact by investing resources in the political process in order to generate wealth transfers from others…” (1997, pg. 46).

A closer examination of the incentives facing the elites is in order. The elites in semi-democratic nations have the incentive to protect their somewhat fragile position by buying off the opposition and co-opting them, by ensuring the loyalty of the members of the existing elite through generous rewards, and by obtaining at least enough funds to keep the economy stumbling along well enough to stave off popular dissent. Similarly, incentives apply to fully undemocratic nations. As Bauer (1998) notes, giving money to poor nations does not mean giving it to poor people.

> Unlike manna from heaven, which descends on the whole population, these subsidies [foreign aid] go to the government. They therefore increase its resources, patronage, and power, compared to the rest of society. External subsidies have also helped to sustain governments especially in Africa, whose policies have proved so damaging that only the subsidies have enabled them to remain in power and continue with such destructive policies. Altogether, the subsidies have contributed significantly to the politicization of life in recipient countries. (pg. 241)

Bauer goes on to discuss the resulting politicization of the economy and diversion of resources from productive activity into rent-seeking. It is worth noting that Bauer originally wrote this essay in 1992 and that subsequent research, particularly on Africa, have verified his insights. (See, for example, Devarajan et al., 2001.)

Mendez (1992) suggests a bicameral legislature to get around governance problems. This creates a number of difficulties. On what criteria will membership in the upper chamber be based – population (India, China, Russia, along with the United States and a handful of other big nations), wealth and privilege (the United States, Japan, etc.), power (the United States, China, Russia, etc.). In democratic nations, upper chambers based on power, wealth and/or privilege have been reduced in authority and/or reformed. Upper chambers meant to protect regions and/or less populated areas have been more successful. But, how to determine which regions should be represented in a global upper chamber is fraught with difficulty. Moreover, the majority of the regions in any realistic structure would be dominated by nations with strong incentives to rent-seek.

But, let's assume the impossible and imagine the upper chamber will only include rich democratic nations, who are disinterested in direct rent-seeking. As noted, the monies will not go to advanced, democratic nations. And, the money is already sunk. It would be politically impossible to withhold the money. So, as noted, the only self-interested incentive facing the upper chamber of democratic nations will be to buy influence, political support in crises, and to help domestic companies gain contracts and favours. Rent-seeking countries will be happy to make the necessary trade-offs to obtain the approval of the upper chamber. This is a recipe for logrolling.

Now, for another look, from a different perspective, at incentives facing elites on the country level. Ruling elites do not like to give up power, and rarely do so outside a calamity or popular revolt. From the prospect of most power-seeking elites, real market reform – a step away from crony capitalism and other perversions of the market system – is bad. It dilutes their power and creates other centres of power – successful entrepreneurs, business leaders, firms, business organizations, unions – which are independent of the elite. It also liberates people from material dependence on government. Elites tend to move toward market reform only when popular discontent associated with falling or stagnant living standards becomes dangerous. (In other words, bad times can be good for market reform and democracy.) As Devarajan et al. (2001) demonstrates, bad policy nations often undertake reform only when all other options, most notably additional aid, are exhausted. Elites may also be pushed to reform by bilateral and multilateral donors, but this influence would be reduced by the availability of funds from a global tax.

On the other hand, foreign aid and development assistance is good from the point of view of the elites. It flows through the government, enhances the wealth and privilege of the elite, provides new means for rewarding friends and creating dependence, and may be used to stave off popular discontent in the face of falling or stagnant living standards by enabling the elite to, for instance, subsidize certain commodities. Not only do poor governance nations have an incentive to devote the necessary resources to rent-seek aid, they have powerful incentives to use development funds to protect and enhance their own positions and to put off reform. Considerable research has shown how in the past aid has been used to support bad government and bad policy. As Devarajan et el. note: “funds can sustain corrupt and incompetent governments” (pg. 6, 2001); and to support bad policy: “If donors pour large amounts of aid into poor policy environments, they are likely to sustain poor policies longer” (World Bank, pg. 199, 2001). It would be tragic for the world, through distribution of global tax receipts, to give bad governance nations yet another option in sustaining policies that impoverish their people.

And, that points to another perverse incentive a global tax could create. In a world with a global tax and big pool of money sitting around, the elites of LDCs have yet another set of reasons to dislike market reforms. Market reforms lead to rising standards of living. As nations become wealthier, they will have less call on the global tax fund. In short, the tax creates incentives for undemocratic and semi-democratic nations to put off reform for both positive and negative reasons. On the positive side, from the elite’s point of view, lack of reform and continued poverty keeps the global tax-related aid flowing. Thus, like the proverbial Chinese beggar – or a beggar anywhere for that matter – who has an incentive to mutilate himself to increase hand-outs, undemocratic LDCs have incentives to mutilate their economies to draw in more aid. On the negative side, reform dilutes elites' power, and thus their ability to capture any aid receipts their nation receives from the global fund. By subsidizing poverty and bad policies, we are likely to maintain or even expand both.

Perhaps tax receipts should only go to good policy LDCs, but these will already be gaining in wealth. Even if it were possible to direct funds only to good governance nations, intractable ethical questions would arise if a global tax were imposed on all the people of the world, but the very poorest of the poor in bad policy nations were excluded from the receipts. This ethical question is less difficult with bilateral or multi-lateral aid where the donors may decide where to sent money they have raised from their own resources. In any event, the governance structure discussed above will make it impossible to direct funds only to reforming nations. It makes the reverse more likely.

Interestingly, the global bureaucracy collecting and administering the tax will face incentives similar to the perverse set discussed above in relation to LDCs. The motivation for the tax's existence is the fight against global poverty. If poverty disappears or is reduced, the need for this bureaucracy is equivalently diminished. One can, and probably should, take the following description with a pinch of salt but it nicely wraps up the public choice problems that will face such a bureaucracy.

> At a December 1993 IDB seminar that assessed the IBD's lending program during 1979-92, panelists were openly downcast at the fact that Latin American economies were improving. They worried there would be no more need for IBD loans and technical assistance if countries continued to privatize and attract private investment capital. (Roberts, pg. 235)

Are there any governance structures that could avoid these problems? Perhaps, the tax's governing body could look like the IMF or World Bank, with representation based on tax contribution. Tobin at one point suggests that these bodies could administer and collect the Tobin tax. Mendez rightly rejects this option. “Corporate-type voting in the World Bank and the IMF, where votes are weighted in accordance with [a] member’s capital or quota subscriptions to these organization … is a method of public choice that is obsolete in the theory and practice of (national) public finance”, and therefore would be inappropriate in the governance of a global tax.

Such a weighted scheme would give advanced, democratic nations the whip hand. That would be inequitable. Just as a $10,000 tax on a family earning $20,000 is a greater burden and, almost certainly, a higher marginal rate than that suffered by a family paying $20,000 out of an income of $100,000, so too, as noted above, will there be an asymmetry between the size of the total tax take and incidence of tax burden and marginal rate. People in LDCs will suffer a significant burden, despite their low level of contribution, yet be denied all but symbolic representation on how the tax is spent if the governing body is structured like the IMF or World Bank.

Nor, as noted in the discussion of fungibility and conditionality, would targeting the money in advance to specific types of infrastructure or human investment work. No one should think aid administrators, particularly given the likely nature of their governing body, will be able to outfox local officials. Moreover, any initial disbursement rules that displeased the ultimate governing body, largely composed of rent-seekers, would either be quickly overturned or lead to international political conflict, hardly the right first step for a global tax.

Section Conclusion

No equitable way can be found to administer the tax. The vast majority of the people upon which it is imposed – those in undemocratic LDCs – will have no say in the creation or governance of the tax. Democratic nations would implicate themselves in this undemocratic outcome. Under any possible structure, once democratic nations gave a go-ahead for such a tax, they would have little say in how the money was spent. One of the few solid proposals for governance comes from Mendez who suggests a bicameral legislature, but this will open the floodgates, not for accountability, but for logrolling, just as foreign policy concerns, not humanitarian reasons, in the past have directed aid.

The tax would undermine what has been a global push for liberal reforms. Perversely it would create new incentives for elites to avoid market and democratic reforms. It would also create a global bureaucracy suffering from the same perverse incentives.

The main motivation of a global tax is to speed economic development for the poorest people in the world, but given the governance structure and the public choice problems discussed above, there is no reason to believe – and it is very important to emphasize this point – that money directed to *poor nations* under this scheme would reach *poor people* in those nations. Most is likely to be diverted to rich and corrupt elites in these nations. Moreover, given the record of government-directed economic growth, the money at best will go to subsidizing poverty rather than creating conditions for long-term, sustainable poverty reduction, a question to which we shortly turn our attention.

PRINCIPLES OF TAXATION

Proponents of an international tax seldom discuss the generally accepted principles of taxation, as a reading of references to this paper will reveal, perhaps implying an understanding that such a tax would violate them.

- Economic efficiency: Given the literature on gains from trade, a tax on international movements should not be considered economically efficient. Nor, as has been noted, have the proponents of the global tax discussed equalizing marginal rates to maintain some level of economic efficiency.
- Administrative simplicity: This is not possible both because of the likely governing structure and the need to coordinate tax collection across some 200 jurisdictions.

- Flexibility: The governing structure makes it unlikely a global tax system could respond appropriately to changing economic conditions and, in fact, makes it likely the system would respond perversely.
- Transparency: The complications of a global tax would make it difficult to impossible to determine where true tax incidence fell, particularly given the tax would be on international movements, not end users.
- Fairness: For the preceding reasons, both vertical and horizontal fairness could not be ensured and would likely be deliberately violated, given a governance structure dominated by undemocratic rent-seekers.

Of course, many taxes violate all or many of the above conditions. This is no reason to impose another one.

A BRIGHTER TOMORROW

Proponents for a global tax almost always discuss the decline in foreign aid in recent years from the days of the cold war and dirigiste government, when aid financed heroic government-directed development plans. The tax would provide the financial muscle to return to those days. In fact, if the global tax generates enough revenue to create gross revenues equal to 0.7 per cent of the GDP of advanced nations, as proponents appear to hope, it is difficult to see what else could consume that much money. Yet, it is now well-known, that no nation is poor today because of "bad" developed nations or lack of foreign aid. Instead, nations are poor because of bad policies all too often supported by external aid. (See for example, Gwartney, Skipton and Lawson, 2001; Samida, 1999; Dollar and Prichett, 1998; Bandow, 1998; Barro, 1997; Devarajan et al., 2001; and Barro and Sala-i-Martin, 1995.) As Rowley writes:

> Third world countries are impoverished and unfree, not by bad luck or poor endowments, but by the deliberate decisions of the dictators, oligarchies, and one-party systems that control their destinies. Redemption, for the most part, lies exclusively in the hands of such

> leaders, or in the hands of the citizens that oust them in successful revolutions, and not in the continued flow of para-statal aid that serves only to enrich the coffers of the few and to prolong the existence of inefficient and incorrupt regimes. (1998. Pg. 128)

If foreign aid flows and domestic resources created by natural wealth were a route to prosperity, Africa would be a development star. Instead, both have had perverse results in Africa and elsewhere. Sending in more aid money, raised by a global tax is not the answer.

This is not the place to review in depth the bad choices made by foreign aid donors in the past, nor how ineffective external aid has been in promoting growth, nor how foreign aid all too often helps keep bad regimes and bad policies in place. (However, see for example, World Bank, ch. 11, 2001; and Devarajan et al., 2001.) The preceding section of this paper argues that all these problems would be amplified by the creation of a global tax meant to fund "development."

The good news is that, after decades of publicly directed development, new research is finally pinpointing policies and programs that work – openness, good macro policies, and good institutions. (See earlier references in this section.) This is creating a wealth of information that donor nations and international institutions like the World Bank can and are acting on. They are able to act on this information because donor nations and institutions like the World Bank do not face the public choice problems discussed above, or at least do not face them to the same extent. The end of the Cold War has reduced incentives to direct aid to nations for political reasons. A global tax would threaten to derail all of this while reducing support for bilateral or multilateral aid (where some accountability is possible) since developed nations and their electorates would feel they were paying their fair share through the global tax. At the same time, such a global tax would create a perverse structure, primed for rent-seeking by the world's least savory regimes, and return the world to the type of politically directed aid seen during the cold war.

Ongoing research holds out even more for LDCs. Researchers in the past have focused on macro-conditions and large-scale institutions. This work has produced fruitful policy guidelines. But now, researchers are going beyond this and investigating the micro and societal conditions necessary for growth. (See, for example, Stallings and Peres, 2000, and Khan, 2000 in addition to the references cited in the first paragraph of this sub-section.) The recent work of de Soto (2000) on property rights deserves special mention. Such reforms, combined with the knowledge that they work, have the potential to unleash a new wave of growth and poverty reduction in LDCs.

This paper has thus far taken the unstated assumption that the imposition of a global tax is politically feasible, at least at some point in the future. It isn't. It is simply not imaginable that all advanced nations, particularly the United States, would allow themselves to be party to a tax that implied taxation without representation for the mass of the world's citizens. This points to another flaw in the idea – the opportunity cost of attempting to impose such a tax.

The effort to create a global tax would be immense for dubious or perverse results, and it would distract from the pursuit of policies that have been shown to work. This effort would far more productively be spent promoting good policy at both the macro and micro levels and at removing impediments to world trade that are particularly harmful to LDCs, for example agricultural policy in the advanced world. As World Bank (2001, pg. 11) notes, "[i]t has been estimated that OECD tariffs and subsidies cause annual looses in welfare of almost $20 billion in developing countries, equivalent to about 40 per cent of aid in 1998. Many developing countries feel that while they are liberalizing their trade regimes, key dimensions of the trade regimes of rich countries are putting them at a disadvantage." (See also United Nations, November, 2000, pg. 13, and United Nations, February, 2001, pg. 28.)

We have no call to be satisfied about the state of poverty in the world. The World Bank (2001, pg. 3) estimates that 2.8 billion of the world's six billion people live on less than two dollars a day. Imagine, for example, the huge benefits of liberating trade to poor nations. It is not just a “40 per cent” increase in aid. It would create sustainable activity, draw in new investment, and create new skills. It would liberate individuals and cooperatives, rather than empower ruling elites. It would have a much greater positive than any type of global tax, which is more likely to produce perverse results. And it would have beneficial affect for rich nations, worth $63 billion according to the same World Bank report (pg. 180).[10]

There is much to be done. A global tax is a step down the wrong road. We should not squander the opportunity cost of promoting such a bad policy.

CONCLUSION

The title of this paper is: *Global Tax: Unworkable, Unnecessary and Dangerous.* The paper has argued that a number of factors make the tax *unworkable*: public choice concerns, governance, avoidance, administration, etc. The tax is *unnecessary* because it harkens back to a failed policy of development, while new approaches are producing favourable results. It is *dangerous* because it is likely to supplant these approaches with a new global era of rent-seeking while damaging one of the key engines of growth, and trade. It would mark a return to old-style government-directed development instead of the new focus on local conditions and policies. This is the difference between trying to build a tree instead of creating the right conditions for a tree to grow.

[10] The report does recommend an increase in aid but directly from donor nations and international bodies, where, this paper has argued, there are lines of accountability.

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