Global taxation: Extending the fractal

Myron J. Frankman (McGill University, Montreal)
Global taxation: extending the fractal

Myron J. Frankman
McGill University, Montreal

Department of Economics, McGill University, Montreal and visiting scholar, Chaire Hoover d’éthique économique et sociale, université catholique de Louvain, Louvain-la-Neuve, Belgium, (2002-2003). E-mail: myron.frankman@mcgill.ca

D.R., 2002
The invitation I received to participate in this workshop was prompted by an article that I published in 1996 on the intellectual history of the idea of global taxation, which I referred to at the time as “international taxation”. That misnomer seemed to annoy one anonymous referee whose expertise apparently was in the area of tax treaties to prevent the double taxation of corporations and who wasn’t especially interested in pie-in-the-sky discussions of quixotic fantasies. A later article in which I searched for generalizable precedents for global taxation is probably even more relevant to our discussions during these two days (Frankman, 1997).

The message that I bring from the search for precedents is that the issue we are dealing with here is one that has recurred repeatedly in human history. It is the question of adjusting our institutions and our perceptions to the needs that arise from scale change. As we say on the west side of the Atlantic Ocean, it is as American as apple pie, insofar as it goes back to the experience of the Founders of the American state. The insistence by the 13 American Colonies that their central authority have limited revenue-raising abilities meant that the newly independent nation began its life saddled with a crushing debt. If the 13 Colonies had obstinately dug in their heels and prevented the granting of substantial revenue-raising power to the central government, the United States could have been an early example of a failed state.

That we can point to a historical record of successive and successful scale changes in the geographical extension of taxation and of government is the good news. The troubling news is that we have been so skillful in shaping our loyalties to our imagined national communities and in celebrating their sovereign prerogatives that we are quite resistant to even giving a reasonable hearing to yet further change, even when the logic appears to many to be compelling. Good sense is often not a match for obstinacy and as we learned from Thomas Kuhn’s The Structure of Scientific Revolutions: an impeccable and even devastating critique of an entrenched paradigm or a hegemonic discourse is rarely sufficient to dislodge it. Indeed, as in Kuhn’s retelling of an experiment with a playing card bearing the wrong color, some never perceive the mismatch between expectations and reality. In effect, believing is seeing, rather than the contrary.

I am suspicious of all-encompassing logical systems of explanation superimposed on human activities. Yet, cautiously applied, analogies can be remarkably insightful. In approaching questions of global order, including global public finance and global democracy, a number of overlapping concepts are useful: subsidiarity, federalism (including fiscal federalism) and fractals. All imply multi-leveled relationships. Fractals, a central concept of chaos theory, are said to display a pattern that repeats itself at every level of magnification from the microscopic to the macroscopic. This physical concept,
like many others, can be regarded as having a social analog. When considering
the social fractals of government and taxation, we would expect to encounter
broadly homologous features at each level of jurisdiction. Details, of course,
vary, but consistencies tend to predominate. This parallelism has yet to be
achieved at supranational levels and least of all at the global level.

The early years

An early case for extending the jurisdictional hierarchy to the global level
was provided in 1884 by James Lorimer in his *Ultimate problem of
international jurisprudence*. For Lorimer the "ultimate problem" was "how to
find international equivalents for the factors known to national law as
legislation, jurisdiction, and execution?" In sketching out his detailed answers
to the question, Lorimer addressed the raising of revenues:

"The expenses of the International Government shall be defrayed by an
international tax, to be levied by the government of each State upon its
citizens; and the extent of such tax shall be proportioned to the number of
representatives which the State sends to the International Legislature."
(Lorimer, 1884)

It is instructive to start with Lorimer, notably because he conceived of
global taxes as one part of a complete framework of government activities at
the global level. For Lorimer, global taxes were conceived as being contingent
upon the existence of a higher level government. This is a crucial point: one can
discuss at length the technicalities of global taxes, a global currency, global
competition policy and progressive global income redistribution, but they
cannot exist until we are ready to establish global government.

In the two decades prior to the publication of Lorimer’s work, the
organizations that were to become the International Telecommunication
Union and the Universal Postal Union had been established, in 1865 and 1874
respectively. They were financed through membership assessments roughly
keyed to benefits received. If one sees membership fees, whatever the basis of
assessment, as a form of taxation, then we have in these organizations the
beginnings on a most uncertain road to global taxation.

The League of Nations was initially financed on a benefits received basis,
but that was quickly changed to a system approximating ability to pay based on
an index combining government revenues and population, with the population
of the largest European member as the upper limit, to prevent an undue
burden on India and China.
The Second World War years

The first real flurry of proposals for international taxation and international organization appears during the Second World War and the early post-War years. There were important contributions on questions of international organization from James Meade, Jan Tinbergen, Lord Keynes, Paul Rosenstein-Rodan, C. Wilfred Jenks, T. A. Sumberg and other scholars (Frankman, 1996).

C. Wilfred Jenks, who went on to become the Director-General of the International Labour Office (1970–1973), was convinced that if the penury of international institutions in the inter-war period was to be avoided one has to single out “distinctive sources of revenue which it would be practicable to make independent of national control and to assign to world bodies for the financing of their work.” (Jenks 1942) Jenks provided the specific example of a tax to be levied on profits accruing from the operations of an international bank, international development corporations, international airways, canals and other means of communication, and internationally controlled monopolies administered as world public services. T.A. Sumberg (1946) put it in a slightly different manner, expressing concern that the revenue sources of international organizations should increase over time. He saw the potential for taxing transactions that were included in a country’s balance of payments, such as merchandise trade, services, investment returns and immigrant remittances.

Both Jenks and Sumberg focused on the taxation of activities, which were dependent on the existence of global order. In effect those who derive the greatest benefit from the global order should reasonably be expected to contribute to its perpetuation and extension. They also both proposed taxes that would be paid directly by economic actors rather than by governments. This was my own approach in a paper I presented in Winnipeg in 1970. My intent at the time was limited to raising revenue for international organization and for automatic fiscal transfers to less developed countries, as opposed to discretionary allocations of foreign aid. The taxes I proposed were all set at levels intended not to distort economic activity. I included both indirect taxes on foreign trade, on private international capital movements and international travel and direct taxes on the global profits of multinational corporations. Like Jenks and Sumberg, I was looking for sources that would yield revenues that would expand at least in proportion to the growth and integration of the global economy and which would free the UN system from financial dependence on a handful of rich countries, particularly the United States.

Another voice from the war years was that of E.B. White, most remembered today for his children’s stories, notably Stuart Little and Charlotte’s Web. In a series of editorials in The New Yorker magazine, White addressed not global taxes but what he termed “Federal World Government”. In his editorial of February 24, 1945 he expressed his hope for the San Francisco conference at which the United Nations was created:
“On what sort of rabbit they pull from the hat hang the lives of most of us, and of our sons and daughters [...] if they manage to bring the United Nations out of the bag, full blown, with constitutional authority and a federal structure having popular meaning, popular backing, and an over-all authority greater than the authority of any one member or any combination of members, we might well be started up a new road.” (White, 1946, p. 63)

The 1970s

The 1970s were a period with a new rhetoric. Some of the catch phrases of the decade were Basic Needs, the Poorest of the Poor, Redistribution with Growth, New International Economic Order, SDR Links and the Common Heritage of Mankind. Countless proposals appeared during that decade for new global taxes and revenue sources to finance global order and development. By and large, these were all proposal for global taxes without global government. When administrative arrangements were considered, resort was made to either existing or newly proposed organs of functional globalism, like the World Bank or an International Sea-bed Authority.

In the 1970s we see the first tax proposals linked to the environment, intended either to reduce negative externalities or conserve non-renewable and renewable, but threatened, resources. Associated with the idea of the Common Heritage of Mankind was the raising of revenues from commercial exploitation or use of the global commons. The Common Heritage principle was used exclusively in relations to res nullius, areas not subject to the sovereign control of any nation. Yet in the very forum in which the principle of a common heritage was being frequently invoked, a great sea grab took place. As William Cline pointed out, the creation of exclusive economic zones represented yet another extension of property rights, quite inconsistent with the notion of the common heritage. (Cline 1979) As long as one’s thinking about our common heritage is limited to what is no country’s land, then that which is left as our common heritage is what little remains after all else is appropriated.

Of course, property rights themselves are part of our common heritage. The historical accident of national boundaries should not justify denying to the bulk of the world’s population a share in the monetary gains resulting from the harnessing of our common heritage. In the mid-1970s we find a suggestion from Tinbergen for an even broader application of the common heritage concept "to new domains such as mineral rights, science and technology, means of production and other sources of wealth." (Tinbergen 1976) A moment’s reflection would tell us that virtually the entire world we live in today is based on a common heritage: written and spoken language, the food we eat, the clothes we wear, the very thoughts we think, not to mention the technological building blocks in the machines that surround us. Global public goods, including peace, are also part of our common heritage. (Kindleberger 1976)
In terms of the present discussion, an important point to note is that an open-ended interpretation of the common heritage of mankind can be invoked to provide philosophical underpinning for the case for global taxation. One can even think of social capital as part of our Common Heritage. In what was likely Nobel Prize winner Herbert Simon’s last published paper prior to his death in February 2001, he put the case most strongly:

“I personally do not see any moral basis for an inalienable right to inherit resources, or to retain all the resources that one has acquired by means of economic or other activities. [...] When we compare the poorest with the richest nations, it is hard to conclude that social capital can produce less than about 90 per cent of income in wealthy societies like those of the United States or Northwestern Europe. On moral grounds, then, we could argue for a flat income tax of 90 per cent to return that wealth to its real owners”. (Simon 2000).

In fact, Simon went on to settle for a flat tax of 70 percent. For our purposes it is the idea rather than the rates that are of interest.

What has come to be called the Tobin Tax on foreign exchange transactions was first proposed by James Tobin in 1972, repeated in 1978 and largely ignored until the mid-1980s. Tobin’s objective was to deal with the hypermobility of capital; the use of the revenues that might be raised was not his preoccupation. His concern was with altering behavior and not public finance. In fact, for Tobin a transaction tax was a second best; the first best solution being a single world currency with supporting institutions. In his words:

“A permanent single currency, as among the 50 states of the American union, would escape all this turbulence. The United States example shows that a currency union works to great advantage when sustained not only by centralized monetary authorities but also by other common institutions. In the absence of such institutions, an irrevocably unique world currency is many decades off.” (UNDP 1994, p. 70)

**Conclusion**

The technical questions relating to global taxation are the simple matter, simple in the sense that there is an extensive experience in national practices of fiscal federalism that can be drawn on for guidance. If global taxes are to be successfully implemented and be sustainable, they must be set within a context of global government. Moreover, a global government without adequate taxing powers will not be equal to the tasks that must be addressed at the highest level, including dealing with the need for compensatory transfers that might be occasioned by the existence of a world currency. The inadequacy of taxing power was the case under the US Articles of Confederation and the League of Nations and is still the case with the United Nations and the European Union (EU). A key obstacle to shifting sovereign prerogatives to a higher level is the granting of a veto to one or more members of a union. Protection must exist.
for minority rights, but to incorporate veto powers into a union’s constitution is to convert its original lofty purposes to mere rhetoric.

I often speak of European integration as a trial and error pilot project for the world. The processes which the EU eventually finds to enhance its revenue raising abilities, to deal with the tensions arising from the Stability Pact, to reform the Common Agricultural Policy, to shape a Constitution and to accommodate further members will add to the precedents that may guide us when we are ready to embark on the building of institutions of democratic global government.

Crossing the threshold to implementation is a socio-political matter relating to vision, perceptions and especially the widespread acceptance of an imagined global community. We can expect no significant progress on either global taxation or global government until such time as there is a discernable significant shift in public opinion. We need to perceive that preserving what we hold dear locally can only be attained by action resulting from deliberations at the global level. Saving the local requires global initiatives that address root causes and nor merely consequences. That perception is key to our recognizing and embracing our common humanity. The threat from a common enemy, not an alien power, but rather our own myopic excesses, may finally lead us to add to our complex set of multiple identities and loyalties that of global citizen. It is at that point that the implementation of global taxes will become simplicity itself.

Cooper Richard. 1984. A Monetary System for the Future. Foreign Affairs, 63 (Fall), 166-84.

http/ic71.text


1. For a discussion of earlier plans for supranational authority, see James Brown Scott’s "Introduction" (pp. iii-xlv) to the 1916 reprint by the Carnegie Endowment for International Peace of William Ladd’s 1840 proposal for a "Congress of Nations". Ladd confidently affirmed that the expense associated with his scheme would be minimal compared to the cost of war: "It would not cost a nation so much as the maintenance of a single gun-boat . . . while it would save thousands of millions, pay off the national debts of all countries, reduce the taxes seven-eighths, and leave a large fund for internal improvements, education, and every useful work." (Ladd 1916).

2. On a global currency, see Frankman (2002). I note that in 1984 Richard Cooper, a participant in this workshop advocated “the creation of a common currency for all the industrial democracies,” (Cooper 1984, p. 166, italics in original). He argued that “some such scheme or its functional equivalent, will be necessary to avoid retrogression into greater reliance on barriers to international trade and financial transactions.” (Cooper 1984, p. 181) The question of a single currency is addressed later when I discuss the Tobin Tax.