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International Public Finance

As a policy field, international public finance (IPF) has so far primarily advanced at the practical political level and less so at the conceptual and theoretical levels. Accordingly, it will be helpful to begin this article with a definition of IPF. This is Section I's task.

Section II will then trace the evolution of IPF since the late 1940s, as it was the launch of the Marshall Plan in support of the reconstruction of Europe after the Second World War that inspired subsequent IPF initiatives.

Sections III and IV will turn to the present, providing an overview of recent searches for new and innovative ways of, respectively, mobilizing IPF funding and enhancing the efficiency and effectiveness of the mobilized resources.

The concluding section will summarize the main findings and revert to the issue referred to in the opening paragraph of this article: the 'missing' IPF theory.

Defining international public finance. The term 'international public finance' is frequently employed in different contexts and with different meanings. Sometimes, it denotes the transfer abroad of national public revenue for purposes like official development assistance (ODA). Other times, it may refer to international-level resource mobilization that requires a multilateral, intergovernmental approach as, for example, is necessitated by the levying of a financial transaction tax. And yet other times, it may refer to the financing of transnational – regional and global – public policy purposes, i.e. policy purposes that affect a huge range of actors, like the mitigation of global climate change, or pertain to widely shared equity concerns such as poverty reduction.

In light of today's policymaking realities, notably the growing importance of global challenges and the shift in the balance between markets and states that has occurred since the 1980s, the last usage of the term appears to be the most appropriate one, as this conceptualization is best suited to capture the multi-facetted nature and complexity of contemporary IPF. In many instances, the policy interventions required to meet global challenges are multi-level and multi-actor processes that call for inputs, including funding, from both public and private actors at the national and international levels. According to this definition, the defining criterion of IPF is the nature of the policy challenge in need of financing: the transnational span of its benefits and costs. Notably, the term 'financing' will be used in a broad sense; it is intended to pertain to both the mobilization and utilization of financial resources.

Thus, as understood here, IPF is about the mobilization and utilization of financial resources in support of transnational – regional and global – public policy purposes pursued either in actors' own self-interest or out of concern for others, i.e. for altruistic, moral or ethical reasons.

Tracing the history of international public finance. A path-breaking event in the history of IPF was the U.S.-funded Marshall Plan for reconstruction in Europe after the Second World War. That plan was underpinned by the idea that supporting the rebuilding of Europe was an investment in international peace and security. Thus, IPF was initially constituted as the financing of a global public good (GPG). Later, the logic behind the Marshall Plan was recast into the rationale for North-South resource transfers, i.e. foreign aid provided by richer nations to poorer ones.

While the officially stated purpose of foreign aid has consistently been the provision of assistance to poorer nations in their national development, it has, in many instances, also served the national – geostrategic or commercial – interests of the donor countries. With the growing importance of global challenges, this intertwining and confounding of countries' international relations rationale has further increased. It is still rare to find clear distinctions between: (1) foreign policy (the pursuit of 'pure' national self-interest); (2) foreign aid (international cooperation motivated by altruism); and (3) international cooperation pursued out of enlightened self-interest in policy areas characterized both by interdependence and challenges that no country, however powerful, can tackle alone.

The policy areas referenced by the third point tend to be those in which challenges are of a global public good (GPG) type, e.g. mitigation of and adaptation to global climate change, biodiversity preservation, communicable disease control, international financial stability, and prevention of international crime and violence.

A reason for this confounding of international relations rationales has no doubt been the budgetary rules constraint: in many countries only certain government entities can disburse funds abroad. So, foreign aid budgets in donor countries have often been tapped to finance GPG-related activities. Such siphoning-off of aid funds is especially common in cases where GPG-related measures can be undertaken in developing countries, as, in fact, is possible with respect to many activities related to the global environment. According to some estimates, about one third of the so-called aid resources may be diverted to purposes that also, if not primarily, reflect donor countries' interests.

This practice is now being met with growing concern, largely because it undermines global poverty reduction goals, but also because it still leaves GPG concerns severely underfunded. The latter require financial resources far in excess of existing aid budgets and financing approaches that differ from the approaches and instruments of foreign aid. Thus, it is not surprising that an active search is on for both new and innovative funding sources and better, more efficient resource utilization practices.

Exploring new sources of international-cooperation funding. The search for new and innovative ways of mobilizing additional IPF resources, i.e. resources beyond the status quo transfer abroad of national public revenue has proceeded along two main paths: (1) exploration of global-public sources; and (2) exploration of voluntary and private funding for international cooperation purposes.

Although studies on the exploration of global-public funding sources date back to the 1960s and 1970s (see, Steinberg and Yager 1978), the desirability and feasibility of tapping such sources is subject to ongoing reexamination (see, for example, UN 2012). The search spotlight has generally shone on taxes, including levies on carbon emissions, international financial transactions, air travel, the mining of non-living ocean resources like Manganese Nodules, damage caused to the marine environment, e.g. by oil spillage from tankers, as well as the linking of Special Drawing Rights (SDRs) and international-cooperation funding.

However, alongside the global policy shift towards economic liberalization and privatization that took root in the mid-1980s, a second line of exploration emerged: the mobilization of more voluntary and private funding. Among the measures that have been examined are: global and international lotteries, philanthropic giving by the rich, corporate social responsibility (CSR) initiatives, voluntary donations via affinity credit cards, the inclusion of voluntary donations into the pricing of private goods like those labeled as 'fair price' or 'Product Red', diaspora bonds and the facilitation of the flow of workers' remittances.

New markets and new products have also been developed in order to, among other things, channel more private money into public – including global-public – policy purposes such as carbon-emission reductions, energy efficiency or food safety.

The proposals designed to tap global-public funding sources have found political support hard to come by. For the most part, they have yet to move from the research and advocacy realm into policy practice. Two measures are notable exceptions: one is the international solidarity tax on air travel enacted in nine countries in 2006. While it resembles an aviation tax, it does not have an environmental rationale. Rather, it is intended to raise funds for global health concerns such as HIV/AIDS. The second global tax-like measure is the 2% tax on trade in Certified Emission Reductions (CERs) under the Clean Development Mechanism (CDM). Its proceeds flow back into environmental projects. The two taxes generate, respectively, about US$ 200 million and US$ 60 million annually (UN 2012), a tiny fraction of other flows to developing countries, including workers' remittances that in 2010 amounted to about US$ 325 billion, according to the World Bank's *Migration and Remittance Factbook 2011*(2nd edition).

If states appear to be jealously guarding their revenue-raising powers, one factor might be the concern that international levies would entail greater automaticity of resource flows to international organizations. This, in turn, could reduce states' capacity to shape those organizations' policies. Greater automaticity of resource flows might also be seen as encouraging inefficiencies in resource use. In addition, governments may fear competition for certain potential tax bases like carbon or financial transactions. This competition aspect can be seen in practice: had the international community decided to introduce a financial transaction tax earlier, this option would likely not be up for consideration, as a means to ease fiscal constraints, by the Member States of the European Union.

While some of these concerns about global taxes are valid and deserve careful consideration, it is also important to bear in mind that a mounting number of global challenges are lingering in serious and ever more costly states of underprovision. Even more problematically, in some issue areas, and the most important example is global warming, the world is fast approaching critical thresholds. Plus, the international community has embarked on a number of long-term financial commitments, including, for example, the life-long treatment of HIV/AIDS patients in poor countries and the maintenance of the international seed banks.

Meeting these challenges and commitments will require a massive scaling up of public funding. However, the currently hesitant political support for global levies with significant resource-mobilization potential suggests this scaling up will take time. Accordingly, actors' attention is increasingly turning to the efficiency with which the available funding is being used.

Searching for ways to utilize resources more efficiently. Efforts to enhance the utilization of available financial resources focus on four partly interrelated goals: first, lowering the costs of meeting global concerns; second, leveraging larger private investments with the 'right' characteristics; and third, constructing win-win bargains or, put differently, cost-in fairness.

Lowering the costs of global growth and development. Past experience suggests that allowing problems to linger unresolved is more expensive than taking timely corrective action. This may explain why more attention is now being paid to externality management, including through regulatory undertakings that make polluters pay for negative spillover effects like greenhouse gas emissions that might undermine the sustainability of global growth and development. A similar concern about crisis prevention underlies the current emphasis on improved financial regulation.

Instruments such as weather insurance and other risk management facilities for developing countries are also aimed at helping people to better cope with the costs of natural disasters such as droughts, floods, earthquakes and other catastrophes. The proposal for GDP-linked sovereign bonds pursues a similar goal. These bonds have a repayment and interest-payment structure that take into account the state of the issuing country's economy. Payments to bondholders will be higher when the economy is performing well, and lower when its growth is stalled or in decline, in order to afford the country an opportunity to avoid slipping into financial crisis.

Mention could also be made of proposals to further strengthen the external shock facilities of the International Monetary Fund (Alonso and Ocampo 2012), as well as those aimed at enhancing compatibility between intellectual property rights and incentivizing innovators, on the one hand, and meeting goals such as global health and the promotion of clean technology, on the other hand.

Measures such as these could contribute significantly to lowering the costs of future growth and development, and reduce the need for internationally pooled public funding that might otherwise be needed to correct, if at all possible, the after effects of financial crises, pandemics, natural disasters, or, if worse comes to worse, wars over arable land and water. According to some estimates (e.g. Kaul and Conceição 2006), the gains achievable through more timely action and the fostering of appropriate risk management tools could amount to trillions of US dollars.

Leveraging 'good' private finance. Addressing the increasingly urgent challenges of sustainable and inclusive development will also require channeling a larger volume of the world's savings towards developing countries. This must be done in a way that helps to meet the needs of the poor while providing investors "a safe high quality asset" (Bhattacharya et al. 2013). This is what the Bank for Infrastructure and Development proposed by the BRICS countries is intended to do.

The instrument of advanced market commitments (AMC) could also be mentioned in this context. By providing upfront guarantees of assured minimum market sizes to private investors, for example, to pharmaceutical companies should they succeed in producing a particular new drug of specified properties, AMC makes it possible for innovators to take into account the needs of the poor. Similarly, the International Finance Facility for immunization (IFFim), currently operating on a pilot basis, aims at making the right – and full – amount of money available at the right time, namely upfront, so that vaccination campaigns can be undertaken at the required coverage level. In order to front-load the required resources in this way, IFFim issues bonds in international markets that are backed by donor-country guarantees of future aid flows, thereby preempting healthcare costs that could result from incomplete vaccination coverage for the price of interest paid to bondholders. The purpose of this mechanism is to correct for the volatility and unpredictability of aid funds that result from their annual and voluntary allocation.

Costing-in fairness. Awareness is growing that states, too, are 'quasi private' actors when they appear internationally. That is to say, they often pursue particular, viz. national, concerns that do not fully overlap with regional or global concerns. Given the disparities and differences that exist in the world, national preferences tend to vary, especially in respect to global goals. Considering this fact, and also taking into account today's global power shifts among states, as well as between states and nonstate actors, it follows that in order to be successful, international negotiations increasingly need to pursue win-win strategies.

Put differently, cost/benefit studies must be based on the assumption that negotiations will need to result in win-win bargains so that international cooperation becomes an effective proposition for all concerned parties. Therefore, it is important to pursue either fair self-enforcing cooperation strategies, such as the global agreement on double-hulled oil tankers (see Barrett 2007), or strategies that encourage a crowding-in of concerned actors, as a well-endowed and well-governed Green Climate Fund might do.

Conclusion. The foregoing review reveals that international public finance (IPF) has, for several decades now, been a policy field 'in the making'. Many pertinent policy approaches and instruments have been proposed; several proposals have even been tested on a pilot basis; and some, notably those involving voluntary and private finance, as well as public-private partnering arrangements, have been realized. Yet, many initiatives still seem to be of an ad hoc, uncoordinated and experimental nature. A coherent, integrating and guiding theoretical framework is lacking.

Some efforts aimed at developing this theoretical framework have been undertaken (see, for example, Atkinson 2005, Barrett 2007, Kaul and Conceição 2006, Mendez 1992, Stern 2007); and other relevant but more narrowly focused theoretical contributions can be found in literature on the economics, finance and public policy of various global issues.

Given the existence of this theoretical groundwork and much practical-political experience it seems that now is the time to begin developing a more systematic analytical framework that allows us to: clearly differentiate between GPG provisioning and foreign aid; examine GPGs in an integrated manner, spanning their national and international, as well as private and public, dimensions; recognize which policy instruments are best for which global purpose; and, perhaps most importantly, better understand the behavior of states in the presence of GPGs and other types of global concerns and how to prevent risks of dual-actor – market and state – failure.

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