THE BROKER

issue 22 October/November 2010

Taxing global public bads

Paul Bernd Spahn and Stephany Griffith-Jones on financial transaction taxes

Paying taxes may improve your health

What next for the MDGs? ★ The demographic imperative ★ JAPAN: Quality - and yes, quantity too ★ Free trade or fair play? ★ Opting for the middle ground

contents

THE BROKER

***The Broker*, issue 22 October/November 2010**
The Broker offers knowledge of global development issues. *The Broker* aims to contribute to evidence-based policy making and action by encouraging exchanges between knowledge producers and development professionals. *The Broker* will be a reliable source of information for all those concerned with development and globalization, especially in the fields of economics, human security, governance, and science and technology.

The Broker is published bimonthly, with an accompanying web magazine (www.thebrokeronline.eu) and email newsletter.

Production and website: Contactivity bv, Stationsweg 28, 2312 AV Leiden, the Netherlands
Layout: Anita Toebosch
Photo research: Rutger Engelhard
Cover illustration: © **Rutger Post/Inbeelding, Amsterdam**
Printer: Drukkerij Holland, Alphen a/d Rijn
Publisher: Stichting International Development Publications (IDP), Leiden, the Netherlands
Board of IDP: Louk Box (chair), Evelijne Bruning, Ton Dietz, Rajendre Khargi

The Broker is funded by the Netherlands Organization for Scientific Research (NWO)/WOTRO Science for Global Development.

ISSN 1874-2033
Issue 23 will be available in December 2010.

Financial transaction tax

Quique

Phase out fossil-fuel subsidies

Fossil-fuel subsidies cost the global economy an estimated US$500 billion annually. But these heavy subsidies serve to discourage energy efficiency and defer investment in clean-energy systems. If governments were to stop subsidizing fossil fuels, global greenhouse gas emissions could be cut by as much as 10% by 2050.

World leaders have already taken the first tentative steps in this direction. At present, there is a unique set of circumstances that can facilitate subsidy reform. The current economic crisis, high and volatile energy prices, increasing concern over energy security, and continuing pressure to reduce greenhouse gas emissions all combine to make subsidy reform a relatively easy sell.

The United States decided to include fossil-fuel subsidy reform on the agenda when it hosted the Group of Twenty (G-20) summit in Pittsburgh in September 2009. The result was a commitment from leaders to 'rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption'.

Evidence of a growing determination to reform subsidies on fossil fuels carried over to the following G-20 summit in Toronto in June, 2010. Thirteen of the 20 members – including the United States, India, Indonesia and Mexico – submitted strategies and timetables for phasing out selected subsidies. The seven members that did not submit plans were Australia, Saudi Arabia, France, the United Kingdom, Japan, Brazil and South Africa.

The effects of the G-20 pledge have reached out beyond membership of the group itself. The Asia-Pacific Economic Cooperation (APEC) forum undertook an almost identical commitment in November 2009, extending fossil-fuel subsidy reform to an additional 12 countries. Seven months later, a further group of countries, led by New Zealand and including Denmark, Norway, Sweden and Switzerland, formed the Friends of Fossil-Fuel Subsidy Reform group. Such escalating commitment will put pressure on the G-20 to strive for an ambitious outcome as it starts to implement fossil-fuel subsidy reform – and will have the effect of ensuring that their reform efforts are transparent.

The G-20's continued leadership remains essential. President Lee Myung-bak of South Korea, as host of the next leaders' summit in Seoul in November 2010, has emphasized that his number one priority is to ensure the implementation of previous commitments. Another of South Korea's top priorities is a policy of 'inclusive outreach' to non-G-20 members and organizations.

To fulfil this priority, the G-20 should be reaching out to those they have already influenced – APEC, the group of 'Friends' and non-G-20 governments – in order to pursue a collaborative approach to reform. Much can be gained from working through the political and practical challenges of subsidy reform together.

The longer-term goal will be to prepare the path for a negotiated multilateral agreement on fossil-fuel subsidies. The experience of the past two years has shown that the political impetus necessary to build consensus may come from smaller groups of countries in the future. To this end, the G-20 and others who seek reform could start raising the topic for discussion in other forums, such as the United Nations Framework Convention on Climate Change (UNFCCC).

There is enormous potential for addressing climate change. Countries should be exploring options for including fossil-fuel subsidy reform as part of their strategy in the run-up to the UNFCC's 16th Conference of the Parties (COP 16) in Cancun, Mexico, in November and December 2010. Developing countries could explore how to include fossil-fuel subsidy reform within their Nationally Appropriate Mitigation Actions (NAMAs).

In the light of this, the International Institute for Sustainable Development's Global Studies Initiative has identified four issues that require further analysis:

- The provision of technical and financial assistance to developing countries to include subsidy reform as a NAMA
- The provision of assistance to finance the flanking measures that are required to protect poor and vulnerable groups from any negative fallout from subsidy reform
- The issuing of credits for reductions in greenhouse gas emissions that result from subsidy reform
- The possibility of negotiating a unilateral commitment on fossil-fuel subsidy reform

The G-20 and 'Friends' group could champion these topics with a non-paper or side events to get subsidy reform onto the UNFCCC's agenda.

The benefits of phasing out fossil-fuel subsidies are clear. A huge burden can be lifted from the budgets of developing countries, freeing up spending for more effective poverty alleviation measures. At the same time, local pollution levels will decrease, energy efficiency can be incentivized and greenhouse gas emissions will be reduced.

For the developed world, eliminating subsidies provides an opportunity to remove a major stumbling block on the path to a low-carbon, clean energy future. ■

A longer version of this article can be found at **www.thebrokeronline.eu**

Mark Halle is director of trade and investment at the International Institute for Sustainable Development (IISD) in Geneva, Switzerland. He is also the founder and former Chairman of the Board of the International Centre for Trade and Sustainable Development.

Managing population growth

The demographic imperative

With global population predicted to rise to over nine billion this century, can we find a solution to the problem of ever-increasing strains on resources without resorting to alarmism and xenophobia?

World population rose to 6.9 billion in 2010. Nearly 80 million people are being added to the total each year, and the seven billion mark is likely to be reached before the end of 2011. With one-fifth of this number still beset by abject poverty, the prospects of an additional two billion people by mid-century needs to be pre-empted by implementing employment and equity-focused development strategies now, before it is too late.

Despite the increasing population, fertility and birth rates have been declining worldwide in recent decades and, hence, this increase is slowing as well. According to a United Nations (UN) projection carried out in 2004, the number of inhabitants in our global village is expected to peak at 9.22 billion in 2075 – with almost all of this increase destined to take place in developing countries.

While these projections are based on fairly cautious mid-range guesstimates of how fertility and mortality will change over the next 40 years, the bulk of the global population increase is more or less guaranteed by population momentum, even if fertility falls much faster than expected. In other words, today's baby boomers in countries such as Yemen, Uganda, Mali and India will keep population growing in these countries for the next generation, even if they reduce their average fertility to below replacement levels of fewer than two children per women.

What does this mean for developing countries? Or, more precisely, what are the implications for the world's poor? Will we be able to feed an ever-growing population, or to employ it at reasonably decent standards of living? With the World Bank estimating that around 1.4 billion people live on less than a euro a day, what will two billion more people do to this situation – bearing in mind that most of them will be born in the world's poorest countries?

By **Andrew Fischer**, senior lecturer in population and social policy at the International Institute of Social Studies of the Erasmus University Rotterdam, the Netherlands.

summary

- Global population will top seven billion by the end of 2011 and is expected to surpass nine billion by 2050.
- Alarmists have long anticipated that population growth will cause famine, disease and war – a world view that has fuelled right-wing and anti-immigration sentiments.
- Despite continued population growth, fertility rates are down worldwide, even in developing countries, a trend that has taken many by surprise.
- But if we are to successfully distribute the world's limited resources, we must put developmentalism, progressive redistribution and universalistic health and other social policies at the top of the development agenda.

Malthusian nightmare scenario?

There are many perspectives on these questions, some alarmist, others more reassuring. The alarmist perspective tends to dominate public perception with what are often called Malthusian views – after Thomas Malthus, who predicted in the late 18th century that population growth would outstrip food production, resulting in famine, disease, war and other calamities that would ultimately keep population growth in check. Such extreme predictions have their modern iterations in iconic books such as *Silent Spring*, written in 1962 by Rachel Carson, *The Population Bomb*, written in 1968 by Paul Ehrlich, and *The Limits to Growth*, written in 1972 by a team of authors at the Club of Rome think tank.

Kenneth Smail, an American anthropologist, has also re-invoked Malthus for the 21st century, arguing that Earth's


Reuters / Andrew Biraj

A passenger train in Dhaka, Bangladesh, September 2008.

long-term sustainable carrying capacity may not accommodate much more than two to three billion people – roughly the population of the world in 1950. These views definitely have their appeal, as they continue to underwrite typical journalistic discourses on population and food production, such as the idea that rising population causes higher food prices, which in turn gives rise to food riots, potential resource wars and famine.

Many of these messages have also been contentiously tied up with xenophobic and anti-immigrant sentiments in both Europe and the United States. One example is *Population Politics*, written in 1993 by Virginia Abernethy, an American anthropologist who has described herself as an 'ethnic separatist' and has been an important figure behind anti-immigration movements in Arizona. The association of such reactionary attitudes with population control is partly to blame for the negative connotation that family planning has come to evoke among more progressive folk, adding to the human and gender rights concerns regarding the intrusive abuses on women's lives that family planning has often entailed. This said, family planning has also been under attack by the religious Right due to its association with contraception and even abortion.

Reflecting on this politicized imbroglio, Eric Ross contends, in his 1998 book *The Malthus Factor*, that Malthusian arguments obscure the real roots of poverty, inequality and environmental degradation in capitalist development, with the result that poor people are blamed for environmental destruction rather than treated as the victims of such capitalist development.

Malthusian predictions have not, as yet, come to pass. Mass famines have largely been averted because the world has managed to increase food supplies in pace with population growth. This point is eagerly pointed out by many so-called 'anti-Malthusians', including Julian Simon, who attacks ideas of scarcity in his 1981 book, *The Ultimate Resource*, with a faith in the ability of free markets and human innovation to deal with population growth. The well-known writings of Danish economist Ester Boserup are also often considered part of this camp, although she qualified her own arguments by stressing that adaptations to population growth take place over long sweeps of human history and are not necessarily the result of short-term market mechanisms.

It is true that increases in food production over the past 60 years have been achieved through the intensified use of chemical fertilizers, particularly synthetic nitrogen fertilizers. But this dependence has questionable environmental consequences, some of which are related to climate change. More generally, 'Green Revolution' technologies are energy intensive and dependent on petroleum-based resources.

These points have been discussed at length by leading experts in the field of population and development. For example, Tim Dyson in his 2005 article, 'On Development, Demography and Climate Change', suggests that while Malthusianism might not apply in the conventional sense, it >

might soon apply at a global level in terms of the long-term impacts of our modern industrial way of life on climate change.

Neo-Malthusian logic

While crude Malthusian arguments have been largely refuted by events, more subtle forms of neo-Malthusian thinking persist. These rely on the idea of a self-reinforcing poverty-population-environment spiral. The theory here is that poverty induces higher fertility among poor people because children provide old age security as well as extra labour and income. This places pressure on the environment, which in turn worsens poverty. The poor are thus doomed to poverty until they can either lower their birth rates or else be lifted out of poverty by some other means. The argument infers that, because poor people have more children than rich people, worsening poverty must either cause higher fertility or prevent it from being reduced from very high levels.

Some of the basic premises of this neo-Malthusian logic have, in fact, been largely refuted by contemporary demographic research. It is now accepted that fertility has been falling rapidly in poor countries and that this is occurring largely irrespective of income level. At first, this fact took many demographers by surprise. Fertility is already falling rapidly in many African countries – to almost replacement levels in a number of urban centres. There are only a few places in Africa where fertility decline has not yet started.

Interestingly, despite the recognized importance of girls' education for fertility reduction, uneducated rural women have also been reducing their fertility. Around 60% of fertility reduction in India between 1991 and 2001 is attributable to women with little or no education. Fertility decline in Morocco has been basically the same among both illiterate rural and literate urban women.

The insight that poor countries and poor people can and do reduce their birth rates has driven much new thinking in demography since the 1970s. The field has since moved away from older ideas rooted in a 'modernization theory' perspective of population and development, and towards more subtle distinctions between the processes of human development on the one hand, and the processes of capitalism, hierarchy and power on the other.

In other words, poor people are perfectly capable of 'modernizing' demographically while still remaining poor economically. Fertility transitions are taking place throughout the world – usually at a more rapid pace in the places where transition has begun later. However, this tells us little about the respective economic development paths that each society will ultimately follow.

They who pay, eat

World population is nonetheless continuing to rise rapidly despite falling fertility rates, mostly in poor countries with limited resources. The impact of this rise on poverty and hunger must be understood in terms of distribution. Regardless of our ability to produce enough food to feed the growing global population, hunger persists in the world because food is not equitably distributed.

Some parts of the world have a surplus (even an extreme surplus), and others a deficit that sometimes results in hunger and famine. To understand this, we need to understand how food is produced and distributed at regional and local levels. This is as much a political economy question as a logistical one, as it is rooted in the power relations that govern both local and global economies.

Distribution is hugely influenced by income, particularly in today's liberalized global economy where the ability to purchase food increasingly determines who gets supplied.

People's ability to buy food can be expressed both in terms of having the money (or other means) to obtain it and also in terms of being able to use this money (or those means) freely for that purpose.

This was the central theme in the early work of Amartya Sen, who set out to explain famine through his somewhat convoluted 'entitlement' approach, which later evolved into his capability approach. This has led to debates over whether famines are caused by declines in the availability of food or, as he proposed, by a breakdown in people's ability to purchase food, despite sufficient supplies.

The main point – one that was made long before Sen – is that poverty, hunger and famine are as much issues of demand (or the inability to enact demand) as they are of supply. Indeed, this was the essential insight of John Maynard Keynes' theory of effective demand, which he developed in the 1930s as a means to explain unemployment. Keynes himself acknowledged Malthus' work on famines as an important source for his ideas.

So, following the trail of Sen takes us back to the classical economists, who were fundamentally interested in questions of distribution, unlike modern mainstream economists, who have tended to assume away the problem of who gets what by treating it as an issue of market exchange.

Demographic drivers of urbanization

In terms of population growth, distributional questions can be considered at both micro and macro levels. At the micro level, population growth is generally experienced as an increase in the size of families, as a consequence of more children surviving to adulthood. In an agrarian setting, this puts more pressure on land resources, as existing plots of land are stretched to support more people. Such a population increase can drive poor families further into poverty in situations where land distribution is very unequal or where households with smaller holdings struggle to subsist on their land (if they have land).

This strain on poor rural households is not resolved by commercializing agriculture or by increasing the capital intensity of agriculture – for example, by using tractors instead of people. These types of change generally increase labour productivity, but at the cost of employing fewer people, and they do not necessarily make the land more productive. Rather, they tend to concentrate the use of land into the hands of fewer people. Less employment combined with more land

Reuters / Akintunde Akinleye

Makoko Riverine slum in Nigeria's commercial capital, Lagos, May 2007.

concentration therefore exacerbates the strain on smallholders and simultaneously reduces the possibility of finding work on larger farms – usually the lifeline of the landless and of poor farmers whose own land cannot meet their subsistence needs.

Some family members (or whole households) move into off-farm activities as a consequence of these strains, thus driving the processes of urbanization, regardless of whether there are decent jobs and a viable living to be made in the towns and cities these people are moving to. Where there are not, urbanization can actually turn rural poverty into urban poverty, as has been witnessed in many developing countries and which World Bank poverty statistics are particularly inept at measuring.

The crucial role of off-farm jobs within such transitions becomes particularly evident at the macro level as whole societies go through these transitions together. Paul Demeny, in his 2003 article, 'Population Policy Dilemmas in Europe at the Dawn of the Twenty-First Century' strikingly contrasts Russia, currently one of the most extreme cases of population shrinkage, and Yemen, one of the fastest-growing populations in the world. In 1950, Russia had a population of 102.7 million, while Yemen had a population of 4.3 million. By 2000, Russia's population was 145.5 million, while Yemen's population had increased fourfold to 18.3 million. Based on UN projections, Russia's population will fall back to 104 million by 2050, whereas Yemen's will increase more than fivefold, to 102 million. Even if Yemeni women were to suddenly substantially reduce their fertility soon, the bulk of this increase is more or less already guaranteed by population momentum.

Similarly, as pointed out by John Cleland at a talk in The Hague in 2009, the population of Niger, which recently suffered from famine and food shortage, would increase at current fertility rates from about 16 million in 2010 to 80 million by 2050. Even if the fertility rate is reduced from the current eight births per woman to 3.6 – as the UN expects – the population will still reach 50 million by 2050. While Yemen and Niger are severe cases, they are not totally exceptional, as many rapidly growing countries in Africa and parts of Asia are set to experience a doubling, if not a trebling or more of their populations by 2050.

The employment dilemma

In the face of such inevitable population expansions, the obvious developmental question is: how will such a large number of people be meaningfully employed? The potential for agriculture to productively absorb such increases is probably close to nil, given the already over-stretched land resources in most of these countries. The increase in employment will most certainly need to occur in the secondary sector (manufacturing and construction) or in the tertiary sector (services, broadly speaking). Given the low degree of employment creation relative to output that is offered by modern manufacturing nowadays, the bulk of this employment will probably need to be generated in services, largely in urban areas.

In other words, Yemen's hugely increased labour force will need to be employed mostly outside agriculture. And with little employment generated in enclave sectors such as petroleum, Yemen would need to become the new South Korea, or even the new China, alongside dozens of other countries competing to become the same. Since modern manufacturing generates relatively little employment, these countries would also need to institute strong redistributive >

Alamy / Brian Atkinson

New Delhi, India.

mechanisms in order to guarantee that any wealth generated by the manufacturing or enclave sectors would be circulated throughout the rest of the economy. This wealth, in turn, would have to create decently paid employment in the largely-urban service sector, with public-sector employment playing a leading role.

And even then, in the best of scenarios, Yemen and other countries would need an outlet of international emigration. After all, during Europe's phase of rapid population growth, as much as 20% of its population increase emigrated to the 'New World' colonies, which had been murderously cleansed for the purpose. Emigration from developing countries today accounts for a far smaller share of population increase than in these earlier European cases. Yet these countries face a greater need for emigration, with significantly fewer resources to face the challenges of population increase at home.

Developmental solutions

A developmental solution to this unfolding situation needs to be earnestly sought by all, Left and Right, North and South. The countries, particularly in East Asia, that have been most successful at both rapidly reducing fertility and generating employment have been generally characterized by a combination of strong developmentalism and universalistic social policies.

Developmentalism in this sense means state-led industrial policy rooted in nationally owned firms, regulated capital accounts to ensure that wealth remains national, and a bias towards generating employment rather than efficiency. This is the opposite of the neoliberal dictates that demand employment austerity in the name of (transnational) firm profitability.

Universalistic social policies, especially in health, provide crucial redistributive mechanisms in the economy. They also provide the administrative and social infrastructure that allows for rapid progress in both birth and death control – the latter being as important as family planning in bringing about sustained reductions of fertility.

South Korea and Taiwan are obvious examples of where this approach has worked well. But Thailand (at least, up until the East Asia crisis in 1997) and China are other examples. In fact, China's success in reducing fertility in the 1970s from a rate of 5.8 in 1970 to 2.8 by 1979 – before the introduction of the one-child policy – cannot be appreciated without understanding the entirely state-collectivized economy that existed at the time. Collectivization assured full employment and the near universal provision of primary health care and basic education in both rural and urban areas.

That particular revolutionary setting would be near impossible, and perhaps not desirable, to reproduce today. But we can still learn from the underlying principles, shared with other less extreme cases, in terms of the ways off-farm employment was generated and supported by domestically controlled mechanisms of accumulation, wealth redistribution, and universal social service provision – all pursued from a poor agrarian economic starting point. Even countries that have made good progress in their fertility transitions, such as most of Asia and Latin America, urgently require employment-focused development strategies in order to successfully tap the potential of their so-called 'demographic dividend', a one-off historical peak in the proportion of working-age adults to young and old dependents.

These lessons should be clear both for the progressive development community, that wishes to make poverty history, as well as for the rising xenophobic Right in Europe and the United States that wishes to stem immigration and other perceived ills inherited from their legacy of having once plundered the non-Western world. Developmentalism, progressive redistribution and universalistic social policies, especially in health, need to be urgently placed at the top of the development agenda, or else we must expect increasing flows of immigration to right the imbalance. ■

- Alexandratos, N. (2005) Countries with Rapid Population Growth and Resource Constraints: Issues of Food, Agriculture, and Development. *Population and Development Review* 31(2), pp. 237-58.
- Demeny, P. (2003) Population Policy Dilemmas in Europe at the Dawn of the Twenty-First Century. *Population and Development Review* 29(1): 1-28.
- Dyson, T. (2010) *Population and Development: the Demographic Transition*. Zed Books.
- Fischer, A. M. (2010) *The population question and development: the need for a debate in the Netherlands.* Final Report on the 2009 SID-WPF-ISS lecture series, Society for International Development (Netherlands Chapter).
- Smil, V. (2008) The Next 50 Years: Unfolding Trends. *Population and Development Review* 31(4): 605-43.

A longer version of this article, including references and citations, can be found at **www.thebrokeronline.eu**

Taxing global public bads

One of the positive things to come out of the recent financial crisis is that it has rekindled interest in the idea of introducing a global financial transaction tax. The idea has been unremittingly promoted by civil society groups since the mid-1990s. But recently it received support from a number of world leaders, including French President Nicolas Sarkozy and Spanish Prime Minister José Luis Rodríguez Zapatero, at the UN Summit on the Millennium Development Goals, held from 20-22 September 2010.

This interest coincides with a search for innovative sources of financing to meet development goals and fund global public goods. So why not tax global public bads to fund public goods? Taxing public bads would yield a double dividend. In the first place, it would generate income that could be used to achieve development goals and mitigate climate change. But the added benefit is that it would stabilize financial markets.

In this special report, Paul Bernd Spahn and Stephany Griffith-Jones explore the ins and outs of a financial transaction tax. They address its pros and cons and ask who would manage the influx of money from a financial transaction tax? One idea, according to Spahn, is to establish a supranational 'tax agency', one that could coordinate national tax policies and collective enforcement at a global level.

What should be taxed and at what rate? Griffith-Jones encourages a currency transaction tax. It would not be difficult to implement because the infrastructure is already in place. And a levy of just 0.005% on the four major currencies could potentially raise over €20 billion. Given the fierce resistance to the idea in the past, governments could be persuaded more easily if a currency tax were given a test run, for a period of five years, for example.

What remains to be seen is whether the expressions of support for a financial transaction tax reflect real political commitment or not. Recent financial regulatory reforms – especially in the United States, but also in Europe – are grounds for optimism in any case. They suggest that governments are willing to look beyond their own back gardens and consider acting for the common good.

Alamy / ICP

Financial transaction taxes

A double dividend

Getting governments to make firm commitments for the long-term funding of public goods is difficult. The solution may be a financial transaction tax, the funds of which would be managed by a supranational 'tax agency'.

Ideally, public goods should be provided to all individuals who demand them, but these individuals should also contribute to the funding of these goods. In the case of global public goods (GPGs), the funding could come from global taxes. The idea of establishing a system of global taxes is gaining rapid support. But its success depends on concerted efforts to establish supranational agencies to coordinate and implement a global tax system.

The global tax discussion is focusing on the feasibility of taxing a wide range of goods, such as carbon emissions, international arms trading, aviation fuel or air transport, internet activity and international financial transactions. Taxing public *bads* to fund public goods (such as the United Nation's Millennium Development Goals) would even generate an efficiency-enhancing double dividend.

In issue 20/21 of *The Broker*, Inge Kaul, adjunct professor of the Hertie School of Governance in Berlin, Germany, looked at today's policy realities through a GPG lens. GPGs encompass political stability, sustainable economic development, preservation of the natural environment and biodiversity, food security and poverty reduction, for instance. But providing these GPGs efficiently requires cross-border policy coordination, multilateralism and supranational collective action. And that's the catch.

Taxing global public bads faces a similar dilemma. Public bads include climate change, ecosystem degradation, new communicable diseases, international terrorism and financial volatility. Some progress has been made in this area – for instance in research, communication and standard setting. But governments are still chiefly guided by national self-interest and have yet to embrace international policy interdependence.

Getting governments to make firm commitments for the long-term funding of public goods is difficult, especially given the impossibility of defining the national benefits of GPGs, and the impulse to get free rides on the backs of others, creating a so-called first-mover disadvantage.

So if a global tax is bound to conflict with the prerogatives of national parliaments, what is the solution? Perhaps it requires the transfer of sovereign powers (in the form of a supranational 'tax agency'), or at least coordinated and harmonized national tax policies and collective enforcement. Such ideas have met with fierce political opposition, however, especially in the United States.

The European Union has an advantage on this point since it already has supranational institutions in place, and it has successfully used them to coordinate indirect taxes (VAT, and excises), although tax legislation and collection remain national prerogatives.

More importantly, funding GPGs not only requires consensus on international policy objectives. Tax revenues need to be channelled to a supranational body. It could resemble any number of supranational bodies, such as the United Nations, the International Energy Agency, the World Health Organization, the International Monetary Fund or the World Bank.

Or it could take the shape of a new Global Solidarity Fund, which was proposed in 2010 by the Leading Group on Innovative Financing for Development, a body consisting of 61 countries, various international institutions and non-governmental organizations who promote the idea of innovative development financing mechanisms. It could also take on a shape of its own.

How to use the proceeds from a global tax is an additional source of political controversy. But a simple rule in public economics is that finance follows function. Therefore the aims of public spending should be clearly defined before tackling the equally complex issues of a global tax.

Financial transaction taxes revisited

The recent financial crisis has breathed new life into the idea of using financial transaction taxes (FTTs) to achieve market stability and mobilize funds for GPGs. John Maynard

By **Paul Bernd Spahn**, emeritus professor of public finance at Goethe University in Frankfurt am Main, Germany. Spahn has also worked as a consultant for major organizations, including the International Monetary Fund, the World Bank and the United Nations.

Alamy / Hans Kemp

Keynes had already proposed 'a substantial government transfer tax on all transactions ... with a view to mitigating the predominance of speculation over enterprise' in his 1936 magnum opus, *The General Theory of Employment, Interest and Money*.

Developing this idea, James Tobin proposed a specific kind of FTT in his 1972 work *The New Economics, One Decade Older*, namely a currency transaction tax (CTT). The CTT was meant to curb exchange rate volatility after the failure of the Bretton Woods system for fixed-rate global currencies. Both Keynes and Tobin emphasize the stabilizing features of such taxes, rather than their revenue-raising potential.

Price volatility remains a major concern for economists who believe that the market is imperfect at finding the 'right' market price for assets – including foreign exchange. This is compounded by evidence that asset markets can be effectively manipulated by speculators and 'herd behaviour' prone to act on rumours rather than fundamental economic data.

While stock markets have long been regulated to shun speculation, no such rules exist for the world's largest financial market: currency transactions. Losses in currency value can be dramatic for developing countries. The Asian financial crisis of the late 1990s, for instance, produced currency devaluations in the order of 40% against the dollar in Malaysia, Thailand and the Philippines, and 80% in Indonesia.

The damage ensuing from such devaluations hits poorer countries with additional vigour, not only due to the loss in purchasing power for imports, but also because it increases debentures in foreign currencies in terms of national currency. Moreover, smaller currencies have fewer defence mechanisms against exchange rate volatility than those that are better integrated into world financial markets.

The debate among economists on price volatility is likely to remain unresolved forever. There is a group that – following Keynes' scepticism – emphasizes certain market deficiencies, while another group argues – in the extreme – that markets are always 'right'. This controversy has a clear ideological tint to it. However, the former group has seen its ranks swell in the wake of the recent financial crisis. As for the general public, scepticism towards the world financial order is – perhaps not surprisingly – skyrocketing.

A tax on financial transactions has been consistently rejected by market players and policy makers. But it has been unremittingly promoted by civil society groups since the mid-1990s. Their policy objective has been mainly to raise revenue. France and Belgium are the only countries to have adopted CTT legislation, but its implementation is contingent on other EU countries following suit.

>

Concerted effort to fight poverty

The Leading Group was founded in France in 2006. Its mission stems from the joint declaration made at the United Nations in September 2004 by former French President Jacques Chirac and Brazilian President Luiz Inácio Lula da Silva to fight hunger and poverty.

The Leading Group has since become a leading international forum for discussions on innovative development financing mechanisms that generate additional resources for official development assistance and provide greater predictability. The Leading Group now has 61 country members, five observer countries, 15 international organizations and more than 20 non-governmental organizations.

For more information about the Leading Group, see: http://www.leadinggroup.org/rubrique20.html

The CTT discussion has moved in the last 15 years from emphasizing price stabilization to funding GPGs. Foreign exchange transactions may have reached an annual level of US$800 trillion in 2007, according to statistics from the Bank for International Settlements, which represents vast revenue potentials even for negligible tax rates.

The recent financial crisis has drawn attention to the idea of taxing the financial sector. The objectives of such a tax system include systemic stability and a reduction of price fluctuations for assets, and the idea is to use tax revenue to either recover taxpayers' lost finances or use it as an insurance against future financial vulnerability.

Examples include US President Barack Obama's Financial Crisis Responsibility Fee and the ongoing coordinated efforts to institute bank levies by France, the United Kingdom and Germany. These could be based on banks' balance sheets, payrolls, bonuses, profits and risk taking. Some schemes suggest allowing the proceeds to accumulate in a special fund, while others favour channelling them into general public revenue. The measures are not meant to directly finance GPGs, however.

The crisis has also revitalized the discussion on FTTs more generally. The focus has now widened to include all non-retail financial transactions of financial products, including foreign exchange, whether traded on exchanges or over the counter. Some proposals for FTTs suggest narrowing tax bases. There is now limited political support for FTTs – in whichever guise they emerge – from a number of governments, including those of Brazil, Canada, Germany, France and several other European countries, with the notable exception of the United Kingdom. The motives are once again mainly regulatory, looking to stabilize financial markets and put tax revenue in the national purse.

Why a currency transaction tax?

James Tobin's argument in favour of a CTT is straightforward. He argues that a small tax would render high-frequency transactions relatively expensive. This, in turn, would deter speculative trading and reduce price volatility, without significantly affecting longer-term investments. The same reasoning applies to a general FTT, based on the assumptions that high-frequency trading is by definition speculative, and a reduction of frequent trading will stabilize prices. Both these assumptions are contentious, however, and have come under attack.

There is widespread agreement that short-term trading is not necessarily speculative, but useful in that it promotes market liquidity. Liquidity essentially means that a financial intermediary is able to meet its obligations in the requested currency at any time. If a bank, for instance, is considered 'illiquid', it not only undermines trust regarding its ability to pay, but it could also set off a chain reaction among other banks.

So liquidity is essential for financial sector stability. But even if short-term trading were speculative, a small tax would not deter a trader if the speculative gains are higher than the tax. Disruption of trading liquidity and ineffectiveness in curbing speculation still remain the chief arguments against a CTT.

The dilemma of the Tobin tax is easily resolved. A very small tax rate (0.005% or less) is unlikely to affect liquidity seriously. And there are ways of distinguishing between liquidity trading and speculation in practice.

In terms of speculation, it is perfectly feasible to distinguish between phases of customary liquidity trading and phases of speculation by monitoring the price of trades. This could conceivably drive a tax to curb speculation. As long as prices stay within predefined parameters, the tax would be dormant, but vigilant.

Currency transaction tax (CTT)

First proposed by James Tobin in his 1972 book *The New Economics, One Decade Older.*

- The original goals of CTTs were to curb exchange rate volatility and deter speculative trade in foreign exchange. Raising tax money to fund development and other global public goods was added to the list in the mid-1990s.
- Preferably, a CTT would be implemented globally. Realistically, it will initially most likely be regional in scope, confined to the European Union or a currency-specific region, such as the euro area.

Financial transaction tax (FTT)

An FTT could tax a large or small number of financial transactions. Examples include the first specific FTT, dating from 1694 and still in use, and the UK stamp duty, which taxes the transfer of shares and other securities. Many countries taxed stock market transactions in the past, but these taxes were abolished following the lead of the United States in 1966. China adopted a stock transaction tax in 1994. Other types of financial transaction taxes were introduced in South America in the 1990s.

- The main goal of FTTs is to raise revenue.
- FTTs are usually seen as taxes that would be implemented nationally, but some view this as a competitive disadvantage. More recently, economists have been exploring the idea of introducing such taxes globally or regionally at uniform rates.

Alamy / Christian Ammering

So customary trading would not be taxed. Once prices transcend the given parameters, a typical indicator of speculation, they will trigger the tax to act as a circuit breaker. This kind of stabilizing tax should not be confused with the Tobin tax, but the two could work in tandem. As a purely regulatory instrument, the stabilizing tax would not generate revenue, nor would it act as a funding instrument on its own. But it would remove one of the main arguments against CTTs.

Financial traders are less concerned with theoretical arguments against a CTT or FTT – the tax would simply be shifted onto end-users – but they do worry about tax competition. There are doubts about whether FTTs can be implemented universally. A regionally restricted CTT would undermine the global 'level playing field' as activities would move to non-tax financial centres. This brings us back to the basic dilemma of GPGs: first mover disadvantage with free riding.

While tax competition is a serious concern, FTTs are not necessarily an obstacle, which is why some politicians now encourage FTTs, claiming, however, that they have to be implemented globally. The Tobin tax is not only technically feasible, it could also work for a set of countries, like the EU.

Why a financial transaction tax?

The recent debate on FTTs is ambitious. There is increasing support for of a supranational and coordinated tax on financial transactions. The political appeal is that it could be implemented through national legislation within a common international framework. The drawback is that the tax would be vulnerable to what the Leading Group dubs the 'domestic revenue problem', the erosion of tax proceeds for the funding of GPGs through pressing domestic needs.

True, electronic communication and centralized exchanges would facilitate the technical feasibility of such a tax, as it would a CTT. But its implementation in a multilateral framework raises formidable legal and procedural questions. Furthermore a more comprehensive FTT, including trading in several financial instruments, raises a number of arduous issues that are less salient for the CTT.

How broad should the tax base be, for example? Should the tax rate be uniform, or should it be differentiated by financial instruments? How can double taxation be avoided? Should certain transactions or institutions be exempt from taxes? What does that all mean for market efficiency?

Political consultation on FTTs could ultimately result in a multilateral treaty that applies such taxes on a subset of well-defined non-retail transactions, in particular the transaction of foreign currencies among financial institutions. These taxes would be collected whenever an official or certified private electronic trading platform is used.

Opportunities for tax evasion are also likely to be limited because financial markets are intrinsically linked and cannot be transferred easily geographically, although the relative importance of Asian and South American markets will increase – regardless of whether a tax is implemented. Evasion strategies could be controlled by indirect measures, such as higher capital requirements.

But whatever the outcome, FTTs are an inappropriate means of financing GPGs such as economic development. Initially, their proceeds are likely to be used to support national public budgets. As the world financial order evolves, these taxes could be transferred to supranational institutions for the funding of GPGs. In the meantime, they could provide greater financial stability and deter speculation, which would benefit developing countries indirectly as a result of less price volatility. >

Alamy / Christian Ammering

The way forward

The process of establishing an FTT is complex and likely to fail if addressed too ambitiously. A feasible path of political implementation could be to introduce a number of taxes (ideally at the same rate) for 'core' domestic financial transactions such as the trading of stocks and debentures. These taxes would be coordinated by a European Directive and comprise financial activities in all EU member states (not only members of the euro area).

These taxes do not necessarily have to be new taxes. For instance, the UK stamp duty and the stamp duty reserve tax could serve as an example for a European FTT. But tax legislation would remain in the hands of national parliaments, and the proceeds would be appropriated by national treasuries. The drawback of this cautious policy approach is that it would not allow resources to be reallocated for more ambitious global policy objectives.

An extremely low-rate CTT imposed exclusively on the euro leg of the trade would be an easier measure to implement and would avoid conflict with other currency-issuing states. It would also be more promising for the financing of global policy objectives, such as the Millennium Development Goals.

All currency transactions involving the euro would be taxed when settling accounts with the European Central Bank. This institution would act as a fiscal agent for all governments in the euro area. This would alleviate doubts about the measure's technical feasibility, because the wholesale market for currency trading would be well defined, highly concentrated and automated through electronic processing.

Using proceeds from taxes for global policies is an entirely different matter. The political will to levy supranational taxes is crucial, but so is the will to dedicate revenue to a common global cause. This option could potentially be more attractive for national governments than surrendering 0.7% of their gross national product to development, a pledge made by many governments at the United Nations 1970 General Assembly Resolution.

The chances of success are certainly higher with a CTT than with specific national FTTs. It would be the first time a supranational tax is used to finance global objectives. But the revenue may as well be distributed to governments according to their shares of the European Central Bank's capital, in which case the chance for a truly supranational funding scheme would be wasted. ■

- European Commission (2010) *Innovative financing at a global level*. Commission Staff Working Document, SEC(2010) 409, Brussels, Belgium.
- Leading Group on Innovative Financing for Development (2010) *Globalizing solidarity: the case for financial levies.* Final Report, Paris, France.
- Spahn, P.B. (2002) *On the feasibility of a tax on foreign exchange transactions.* Report commissioned by the Federal Ministry of Economic Cooperation and Development, Bonn, Germany.
- Spahn, P.B. (1995) *International financial flows and transactions taxes: survey and options*. University of Frankfurt/Main. Paper originally published with the International Monetary Fund as Working Paper WP/95/60.

A longer version of this article can be found at **www.thebrokeronline.eu**

Building global solidarity

The movers and the makers

The notion of a financial transaction tax has been circulating for years. The United Nations Summit on the Millennium Development Goals, held on 20-22 September 2010 was a perfect opportunity to see if world leaders were able to put their money where their mouth is.

This is not the first time there has been a call for innovative sources of financing to meet development goals and raise money for funding global public goods (GPGs). In fact, some innovative measures already exist, such as a tax on airline tickets, which is used to fund international public health initiatives. But are these piecemeal measures enough? The UN Summit on the Millennium Development Goals, held on 20-22 September 2010, provided a golden opportunity to discuss more far-reaching measures, such as a financial transaction tax (FTT). The question is, will the commitments announced at the summit be translated into action?

Signs that the FTT question is being taken seriously came from a high-level side event on the second day of the summit. It was organized by the Leading Group on Innovative Financing for Development, an initiative that now consists of 61 country members, international organizations and non-governmental organizations (NGOs).

The Leading Group drafted a declaration, read out at the side event, that reiterated its belief 'that those who benefit from globalization should contribute to solidarity efforts [to] help address the challenges of sustainable development'. It went on to say that it intends to 'explore a very small tax on international financial transactions ... that could provide stable and substantial financing for development, while minimizing economic distortions or damage to the real economy'.

Judging by the tone of the declaration, its authors mean business, though one may question whether the intention to 'explore' the feasibility of an FTT reflects real commitment or not. This is a legitimate concern. The notion of an FTT has been circulating for years, but a truly global tax, the revenue of which is earmarked for 'the challenges of economic development', has yet to emerge.

All this support

Taxing financial transactions is an idea that had been receiving gradual international support prior to the UN Summit. Former UK Prime Minister Gordon Brown presented this and other ideas related to the implementation of a global bank tax at the Group of Twenty summit in Scotland in November 2009. Lord Turner, chairman of the UK Financial Services Authority, advocated the introduction of an FTT in an interview in September of that same year in Prospect magazine, characterizing a global tax as a 'sensible revenue source for funding global public goods.' The manifesto of the Liberal Democrats, now part of the United Kingdom's coalition government, clearly endorses the introduction of an FTT and urges its use to support development and fight climate change.

On the European mainland, France has played a key role in promoting innovative financing. It can bank on a history of governments, regardless of their ideological persuasion, that are highly independent from and critical of the financial sector. At the UN Summit on 22 September 2010, French President Nicolas Sarkozy reaffirmed France's commitment to creating a global tax in his speech to the UN General Assembly.

Interestingly, the French president made a link in his speech between implementing an FTT and channelling the revenue it generates to development cooperation. He said that while 'the crisis is severe in the wealthy countries ... its consequences are much harsher in the poor countries. So we do not have the right to do less'. He went on to say that now was the time to >

By **Stephany Griffith-Jones**, financial markets program director of the Initiative for Policy Dialogue at Columbia University, USA.

introduce innovative financing in the form of an FTT. 'Why wait?' he asked. 'Finance has been globalized. Why shouldn't we demand that finance contribute to stabilizing the world through a minuscule tax on each financial transaction?'

Strong support has also come from other countries, such as Belgium, Spain and Japan. Belgium passed a bill in 2004 introducing a currency transaction tax called the Spahn tax, developed by Paul Bernd Spahn (see the companion article in this special report). These three countries presented the Leading Group's declaration at the UN Summit side event, receiving support from Norway and Brazil.

Sarkozy was joining Prime Minister José Luis Rodríguez Zapatero of Spain, who also called for an FTT at the UN Summit two days earlier. He said that if 'we want effective global governance [and] shared responsibility in the face of global challenges like the battle against poverty, then we also need a system of global incomes'. Zapatero expressed support for a tax on financial transactions that would 'be integrated into the global framework of reforms of the financial system'.

There has been some support in the United States, though there is still plenty of opposition. The United States, it should be noted, is not one of the Leading Group's 61 country members. Nevertheless, Nancy Pelosi, Speaker of the US House of Representatives, endorsed a global tax in March 2009. The American Federation of Labor and Congress of Industrial Organizations, the largest federation of unions in the United States, has strongly endorsed it. It remains to be seen, however, whether the FTT proposed in the US will be used for any other purpose than to fund additional domestic stimulus spending.

NGOs are vocal backers of FTTs (see box). But all this support raises a number of questions. There does not seem to be any consensus yet on what form an FTT should take. How do its supporters envision the use of the revenue generated from these taxes? The key question is whether significant rhetorical and technical support will materialize into political commitment. The recent financial regulatory reforms, especially in the United States, but also increasingly in Europe, are grounds for optimism. They suggest that governments are able to look beyond their own financial interests and consider acting for the common good.

The bright side

The dark side of the financial crisis is that while governments need additional resources to finance investments in developing countries, it is now less likely that the private sector will chip in. So an added attraction of an FTT is that many financial transactions are made by people with high incomes or by specialized financial agents, who operate hedge funds among other things. This makes it a highly progressive tax. And the argument that an FTT would reduce liquidity is a moot point. Its rate would be so low that the amount of tax would ultimately be far smaller than the commissions and spreads charged by financial institutions on such transactions.

The bright side of the crisis is that it has rekindled interest in FTTs. It has also prompted authorities in major financial centres to increase the transparency of financial transaction exchanges and centralize them. And given the instability of the financial world at the moment, more transparency is good for financial stability.

There are two basic measures for dealing with financial instability: regulation and taxes. Ideally, both should be implemented multilaterally in light of the markets' global nature. If this were to prove unfeasible politically, these measures could be introduced by a so-called coalition of the willing. Think of the European Union or the Leading Group, to name but two. The leading role should be assumed by countries whose financial industries do not have excessive lobbying powers.

One kind of tax that would be easy to implement is a currency transaction tax (CTT). The infrastructure for it already exists. It merely requires governments to demonstrate the political will to actually move forward and introduce new measures. As we have seen, the rhetoric in support of FTTs is growing. Perhaps governments could be won over more easily if a currency tax were introduced on a pilot basis – for a period of five years, for example.

Organizations working in the field of development would certainly welcome a modest CTT. A coalition consisting of NGOs, the UN, development and environmental ministries could wield their influence to muster support from other

European NGOs supporting FTTs

United Kingdom

Stamp Out Poverty is an amalgamation of UK charities such as Oxfam, Christian Aid, Save the Children and War on Want. It advocates a currency transaction tax with a levy of 0.005%, arguing that 'a tiny levy ... on the four most traded currencies has the potential to raise US$30 billion in revenue without damaging the market'.

The Robin Hood Tax campaign, whose motto is 'turning the crisis for banks into an opportunity for the world', advocates an FTT starting at a rate 'as low as 0.005%', but which can 'average 0.05%'. The movement proposes using a quarter of the proceeds for development and a quarter for climate change, with the remaining half going towards domestic needs.

France

ATTAC, the Association for the Taxation of Financial Transactions for the Aid of Citizens, is a global justice movement in France advocating 'the regulation of financial markets, closure of tax havens, introduction of global taxes to finance global public goods, cancellation of developing countries' debt, fair trade rules and limits to free trade and unregulated capital flows'.

Germany

WEED is a German NGO campaigning for a U-turn in finance, industrial and environmental policies in order to counter the negative effects of globalization on society and ecology. Part of their mission is to promote the introduction of an FTT.

Alamy / Peter Marshall

sectors: the small and medium business sector, unions and even sectors within the financial industry that wish to rehabilitate their tarnished image.

Broader political support for a CTT that earmarks proceeds for development purposes will probably require giving some of the proceeds to countries where these transactions originate. This would reduce the finances reserved for GPGs, but it would increase political feasibility since there would something in it for everyone. Indeed, it could be a wise opening move. A small currency tax could then be linked to far broader (and possibly higher) FTTs established at national levels.

Global solidarity

A further impulse to the introduction of a CTT has come from the 2010 report, *Globalizing Solidarity: The Case for Financial Levies*. The report was written by the Committee of Experts to the Taskforce on International Financial Transactions and Development (TIFTD), under the aegis of the Leading Group. The impetus for this report was the fact that the financial crisis has seriously undermined governments' ability to meet their international development and environmental commitments. The report's aim is partly to address this sudden, vast financial shortfall, as well as structural underfunding of global public goods.

The TIFTD report analyzes financing options against a number of criteria:

- sufficiency, or the ability to make a meaningful contribution
- market impact, where market distortions and avoidance are acceptable
- feasibility, such that legal and technical challenges can be easily addressed
- sustainability and suitability

The report concludes that a CTT is the most desirable option, partly because it would be easy and cheap to implement. This is in some measure linked to the collapse of the Herstatt Bank in Cologne, Germany, in 1974. German regulators seized the bank in the middle of a German mark-US dollar transaction. The time difference between Cologne and New York meant that funds were never transferred to the receiving end.

This led to the establishment of the *real time gross settlements system*. This system ensures that all transactions in foreign currencies are made in real time in a centralized manner. Moreover, there are a number of institutions that keep complete records of currency transactions. And this is why it would be extremely easy and inexpensive to impose taxes on currency transactions.

The funding crisis governments are presently facing is directly linked to what the report calls the global solidarity dilemma. The growth of the global economy has not been matched with an effective means of generating revenue from global economic activity to pay for global public goods. The report therefore recommends that proceeds from a currency tax be channelled to a global solidarity fund, which would use the proceeds to fund global public goods.

Improving the net contribution of the financial sector to the real economy, and to the welfare of ordinary people, would significantly rehabilitate the financial sector's battered image, a desirable aim for the financial sector itself. In the end, maybe it is the financial sector which would gain most from a financial or currency transaction tax. Once it accepts that, the main barrier to its implementation – political opposition by parts of the financial sector – would be removed. ■

- Baker, D., Pollin, R., McArthur, T. and Sherman, M. (2009) *The potential revenue from financial transactions.* Center for Economic Policy and Research and Political Economy Research Institute, Issue Brief.
- Griffith-Jones, S. et al. (2010) *The great recession and the developing world.* Initiative for Policy Dialogue, Working Paper.
- Spahn, B. (1995) *International financial flows and transaction taxes.* International Monetary Fund, Working Paper/95/60.
- Leading Group on Innovative Financing for Development (2010) *Globalizing solidarity: the case for financial levies.* Report of the Committee of Experts to the Task Force on International Financial Transactions and Development.

The Broker blogs from New York

Goalposts: What next for the MDGs?

The Broker was in New York to blog from the United Nation's (UN) Summit on the Millennium Development Goals (MDGs). We invited policy makers, academics and NGO representatives to discuss the Summit and long-term strategic choices. Their thoughts are briefly summarized here. Two separate narratives have emerged from this. The mainstream debate focuses on details, statistics and methods to refine the current MDG approach. More critical voices want to replace the MDGs after 2015 with a more comprehensive development strategy.

In 2000, eight goals were set to change the lives of the global poor. With only five years left to meet these objectives, MDG advocates drew up the balance at the UN Summit held on 20-22 September 2010. *The Broker* went to New York to see who was looking beyond the short-term, direct interests and political aims of official delegations and lobbyists, to discover whether there were initiatives that would transcend the current institutional aid framework and propose viable alternatives. The burning question is: where should the world head, in terms of development, after 2015?

What is currently being discussed in mainstream forums like the MDG Summit raises the suspicion that post-2015 policies are likely to be more of the same, with minor changes to the prevailing narrative. This mainstream debate focuses on details, statistics and methods for refining the current technical, top-down and aid-oriented MDG approach. 'Partnerships' with the business sector are becoming increasingly influential and are driven by a discourse that favours terms like 'innovation' and promotes a distinctly action-oriented approach of 'helping' people and arranging necessary services for the poor.

However, approaches more critical of this traditional aid viewpoint are also emerging here and there. They could lead to a more comprehensive and policy-oriented alternative narrative that could hopefully be endorsed at the next MDG summit in 2013. These critical voices discuss how to develop alternative strategies that combine government and multilateral policies with grassroots activism and global movements. They focus on broader, less segmented development, poverty and change concepts, and try to include ecological goals and (human) security needs. They address political, social and economic obstacles for development, and also look at global processes and the root causes of the global financial, food and climate crises.

By **Frans Bieckmann**, editor in chief of *The Broker*, and **Anna Meijer van Putten**, blog coordinator.

The mainstream debate

Negotiations between the UN member states before the summit resulted in an 'outcome document' that was presented at the MDG Summit: *Keeping the promise: united to achieve the Millennium Development Goals*. The document reaffirms member states' commitment to achieve the MDGs by their target date. There was already advance consensus about the political message that the summit would make: the glass is half full. In other words, while a great deal has been achieved, a much more concerted effort is needed to achieve the development goals by 2015.

Most civil society and advocacy organizations do not share the member states' optimism. They criticize the dearth of financial pledges needed to halve extreme poverty and reach the other goals. Indeed, a number of side discussions took place in and around the UN premises, and on websites. Most of them went beyond the summit's political rhetoric, and yet they fit neatly into the current MDG narrative. They focus on concrete policies for achieving the different MDG goals in the next five years – policies that have generated a debate about numbers and statistics: how do we measure poverty or the extent to which it has been eradicated?

For example, there was the predictable discussion of traditional aid problems, along the lines of the 2005 Paris Declaration and 2008 Accra Agenda for Action. This discussion about aid effectiveness emphasized themes such as ownership, coordination of donor support, mutual accountability and transparency. While this too is necessary, it is not enough. Increasingly, alternatives to these traditional arguments began to rear their heads at the side events. For example, several actors made an argument for more 'policy space' for countries to determine their own course. Others advocated results-based financing methods or transparent tax systems.

Narrative shifts?

There are several signs that the MDG narrative, with its technical approach, is losing ground in the official aid community. An important novelty of the MDG outcome document is that it explicitly mentions fragile states. About one-third of developing countries are fragile states, and it is precisely these states that are largely responsible for the MDGs not being met. The violence and conflict in these complex environments stands in the way of sustainable development, presenting policy makers with a very different set of requirements in terms of aid and development.

The mentioning of fragile states is an implicit criticism of the MDG narrative, because it acknowledges that at least in these states the segmented MDG approach yields little result.

These criticisms were also raised on *The Broker* blog, for example by Phil Vernon, director of programmes at International Alert, an independent peace-building organization. The current aid structure is generating the wrong course of action, particularly in fragile states, according to Vernon. 'People in the sector know this, but they are constrained by the institutional framework within which they work, rather like surgeons operating in a dimly lit room,' he says.

Another critic of the MDG narrative, in particular of its focus on statistics and (poverty) measures, is David Hulme, professor of development studies and head of the Institute for Development Policy and Management at the University of Manchester. Hulme criticizes 'the pretence that a science of poverty reduction will yield "evidence-based policy"'. Hulme stresses the importance of measuring social and economic progress, but questions the objectivity of such an exercise since 'there is no evidence that is not based in some way on value judgements and theory'.

Combating poverty and inequality, a flagship report written by the UN Research Institute for Social Development (UNRISD), actually criticizes the goals: 'The MDGs focus on measuring things that people lack to the detriment of understanding why they lack them.'

Another recent report, by Lancet - the London International Development Centre Commission, *The Millennium Development Goals: a cross-sectoral analysis and principles for goal setting after 2015*, provides an analysis of the MDGs and proposes a holistic, interdisciplinary approach to development. Synergy is key. Elaine Unterhalter, one of the authors of the report, writes on *The Broker* blog that the 'MDGs were not derived from an inclusive analysis and prioritisation of development needs'. The commission highlights the absence of a range of key values, such as equity, a notion that promises to be a central concern in future debates.

The Broker / Frans Bieckmann

Broadway at the time of the MDG conference, New York, USA, September 2010

Towards a new narrative

Not many of the critics of the MDG narrative were actually at the MDG Summit. But some did follow the proceedings in New York. Aware that the power and money needed for change was converging at the summit, they seized the opportunity to develop a new narrative that turned away from mainstream policy.

'We have to take a radical turn', Phil Vernon writes. The MDGs are 'too narrow' and 'too technical'. 'Instead of asking "how can our existing institutions implement this new approach", we need to ask "what kind of institutions do we need, to do so?"'

Major changes are needed in the way our international institutions are organized to make them fit the new purpose. 'It is time to put the ideology back into development,' Vernon continues. 'Let's start working now to have a more genuine discussion about what human progress actually means, instead of going along with the idea that history can be described, and progress measured, only in terms of poverty, health, schooling and the like.'

With the 2015 target date fast approaching, it is time for MDG critics and sceptics to join the debate. One of them has already. Michael Edwards, from Demos, a non-partisan public policy research and advocacy organization in New York City, was never that interested in the MDGs. But Edwards realized that over time, it is politics and state building that generate the best results. 'I've no idea what that would mean for the detailed goals and mechanisms of the MDGs' he writes, 'but I'm pretty sure that they would be more effective as a result. Maybe it's time I entered the dance floor after all?'

One thing is certain. A new course needs to be charted right now. It is likely that the post-2015 targets will be agreed upon at the follow-up MDG Summit, planned for 2013. The MDG Summit's outcome document asks – read: orders – UN Secretary-General Ban-Ki-moon to start investigating a new course of action. So the debate is starting now. This will be an opportunity for both supporters and critics of the MDGs to push things in the right direction. ■

For more on the MDG Summit, visit www.un.org/en/mdg/summit2010

Japanese aid's balancing act

Quality – and yes, quantity too

Japan is feeling the tension, amid calls to increase the volume of its aid, between benefitting economically from its aid initiatives and adhering to global standards of development cooperation.

istockphoto.com

When the precipitous drop in Japan's ranking among aid donors – falling from first to fifth place over the past decade – is mentioned in Tokyo these days, it is usually within the larger context of the country's decline. The main features are well known and much lamented. Japan's public debt-to-GDP ratio dwarfs those of other advanced industrial nations and is second only to Zimbabwe's. Its economy is perpetually in the doldrums, each whiff of resurgence soon overwhelmed by daunting employment or stock market reports. And its ageing population faces a declining birth rate. All of this, of course, has taken place in the shadow of a rising China, which is a far more visceral presence for Japan than for the United States or Europe.

All of this matters for the future of Japanese official development assistance (ODA). There is no strong 'anti-ODA' group in the Japanese parliament, the Diet, and aid retains broad emotional appeal for most Japanese. After all, the legitimacy of successive Liberal Democratic Party (LDP) governments in Japan was premised both on the country's post-war economic 'miracle' and on strict limits on the country's remilitarization.

In this sense, Japan's presumptive contributions to the rest of the world – peace and development – emanated in part from a political-economic model that was widely accepted and extolled by actors across the party spectrum. Aid has been controversial in Japan only with occasional aid-related scandals and, tellingly, with Japanese assistance to China that continued despite violent anti-Japanese protests in China as well as China's own emergence as an aid donor.

The reduction in Japanese aid has not been driven by a popular rejection of ODA but rather by the merciless arithmetic of chronic deficits, and particularly by the budgetary hawks in Japan's Ministry of Finance. If anything, the appeal of aid has broadened in recent years, with a more capacious and, in some ways, strategic stance of the government towards ODA and with a wider set of actors involved, from non-governmental organizations (NGOs) to defence policy makers. But it has also become a good deal shallower, with much of the appeal symbolic and emotive rather than concrete and committed.

Japanese aid authorities now face a particularly vexing set of dilemmas: maintaining or increasing Japan's aid contributions while remaining vigilant about budget deficits; collaborating effectively with other aid donors while seeking specific diplomatic benefits for Japan; and retaining the

summary

- When former Prime Minister of Japan Junichiro Koizumi decided to extend massive aid packages to Afghanistan and Iraq in 2003, he punctuated a shift in aid away from the search for economic growth and towards other policy priorities.
- But Japan has slid from first to fifth place over the past decade among aid donors, a decline usually placed in the larger context of the country's economic demise.
- Japanese authorities are therefore performing a balancing act, trying to maintain Japan's aid contributions while remaining vigilant about budget deficits.
- Japan is also trying to retain its particular identity as a model of development while adhering to global standards of development cooperation.

By **David Leheny**, Henry Wendt III '55 professor of East Asian studies at Princeton University, New Jersey, USA. He is co-editor, with Kay Warren, of *Japanese Aid and the Construction of Global Development* (Routledge, 2010).

Sadako Ogata, president of the Japan International Cooperation Agency (JICA) in Tokyo, and former UN High Commissioner for Refugees, April 2009.

country's particular identity as a model of development while adhering to global (often read in Japan as 'Western') standards of development cooperation.

And they face these challenges in two terribly uncertain environments: an Asia-Pacific region increasingly in China's shadow, and a Japanese political system marked by intense economic and electoral constraints.

JICA-ization

The Japanese government's reorganization of its aid apparatus to concentrate authority in the hands of the ministry of foreign affairs (MOFA) and Japan International Cooperation Agency (JICA)) is in some ways the culmination of a long process of aid consolidation. Although some Japanese aid is still handled by a wide array of ministries and agencies engaging in specialized projects, there is no longer the crucial organizational division between export credits, loans and technical cooperation.

With MOFA now playing the key coordinating role and JICA managing the technical details of most of Japan's development assistance, aid policy is more centralized than it has ever been. Particularly under the highly visible leadership of Sadako Ogata, the former United Nations High Commissioner for Refugees and a key international proponent of 'human security' initiatives, JICA has adopted an organizational identity that had thus far eluded Japanese ODA.

It has, however, been a contested revolution, and only partly because of recalcitrant foot-draggers in agencies sidelined by the shift in power to JICA. Indeed, what Japan lacked in a strong central organization in its overall ODA initiatives, it made up for with its distinctive aid flavour: a heavy emphasis on loans, often focused on infrastructure, frequently criticized as tied and generally supportive of Japanese industrial initiatives.

Japanese aid emanated both from post-war reparations agreements with East and Southeast Asia and from export promotion schemes that sought to turn wartime compensation into markets for Japanese goods. Even as these reparations agreements had run their course, officials in Japanese ministries connected with different sectors of the economy kept a close eye on where aid might be provided in goods or with certain specifications that prioritized the skill sets and comparative advantages of major Japanese firms.

As pressure particularly from other donors to 'untie' aid became more intense, much of Japan's 'economic cooperation' involved the development of infrastructure – roads, telecommunications, water and sewage, for example – designed in part to attract investment to developing countries. In practice, of course, the assistance went largely to areas in the Asia-Pacific region that were the focus of Japanese firms' investment plans, and with construction handled by Japanese companies.

For many, this linking of public capital to private initiative was simply shrewd development economics. Indeed, resistance to 'aid reform' had largely come in the form of those who extolled the merits of the Japanese or, later, 'East Asian development model'. After all, given the overall economic growth rates of aid recipients (not to mention Japan itself), it is unsurprising that many Japanese aid specialists would arrive at the conclusion that the outcomes of Japanese aid schemes – largely focused on Asia-Pacific countries like China, Indonesia, Thailand and Malaysia – were superior to those of the American and European efforts in Latin America, sub-Saharan Africa and elsewhere.

Without growth, nothing is possible

Against neoliberal emphases on the market, adherents of this model have largely emphasized the crucial role that technically skilled state leadership would have to play in guiding economic growth. Indeed, at the peak of Japan's aid power in the 1990s, Japanese development specialists played a heavy role in drafting the World Bank's 1993 report The *East Asian Miracle*.

>

Lineair / Knut Mueller / Das Fotoarchiv

Road construction in Afganisthan, financed by the Japanese government

This fascinating book – something of a Rorschach test for political economists – simultaneously extols the World Bank's preference for markets and limited states while lionizing the putative East Asian model's reliance on strong states with unrivalled discretionary authority over the pace, direction and priorities of economic development.

Against the proponents of broader aid goals for sustainable development, gender equality, public health and other missions, Japanese supporters of a 'pro-growth' stance have made a simple argument: without growth, nothing else is possible.

And so the fights over aid in Japan are in part over what kind of country and leader Japan is supposed to be. For the NGOs (and their left-leaning supporters) that have played an increasing role in aid, Japan is no longer the stodgy economic machine that generated high rates of growth without encouraging personal freedom, gender equality or social progress.

For many politicians, Japan is no longer the bureaucrat-led country unable to consider aid as part of a larger strategic vision. And aid officials themselves debate over whether Japan should be a 'responsible' member of a transnational team of donors focused on multilateral coordination and targeting poverty alleviation, human security or sustainable development, or whether it represents a distinctive model, demonstrating the continuing salience of growth as the first step toward broader development. The debates are, in short, about much more than aid.

China and the limits of Japanese aid

Perhaps unavoidably, China looms large in these discussions. Long the top recipient of Japanese aid, China has been used as an example to Japanese audiences of both the best and worst aspects of ODA. On the one hand, China's meteoric rise could demonstrate both the potential efficacy of aid as well as the East Asian development model that links state capacity to private investment.

On the other hand, anti-Japanese protests and widespread opprobrium in China left many Japanese with the sense that China was insufficiently grateful to Japan for its assistance. If aid could not even buy good will, and might, in the worst-case scenario, strengthen a potential adversary, what was the point of offering it in the first place?

China's own aid to Africa and Southeast Asia at a time when it still received forms of Japanese assistance seemed only to enhance the view that aid to Beijing was a sucker's game, with the Chinese government using its own financial resources to buy diplomatic benefits that could destabilize Japan's own foreign relations.

One consequence – other than some parliamentary calls to end aid to China – has been a widespread demand that Japanese aid policy be developed strategically. But strategy means different things to different people. When Junichiro Koizumi, prime minister of Japan from 2001 to 2006, encouraged the coordination of ODA at the cabinet level, he sought in some measure to make aid part of the government's diplomatic priorities.

His decision to extend massive aid packages to Afghanistan and Iraq in 2003 in effect punctuated a shift in aid away from the anodyne and persistent search for economic growth and towards other policy priorities. Strategy, in this case, meant a broad diplomatic and security strategy, in which ODA might play several roles: helping post-conflict regions, strengthening ties with the United States and showcasing new roles and missions for Japan's military.

Strategy could also mean coordination to serve goals widely shared across the global aid community. JICA's leadership under Ogata has emphasized the importance of Japan's participation in multilateral institutions (though Japan's aid still focuses heavily on bilateral assistance), and many members of JICA are deeply committed to the kinds of concerns – on environmental protection, gender equality and the reduction of poverty – that have long animated the activities of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD).

Formal ODA organizations, think tanks, and institutes

- Japan International Cooperation Agency (JICA) www.jica.go.jp/english/index.html: Primary government organization for aid coordination and distribution.
- Japan Fund for the Global Environment www.erca.go.jp/jfge/english/index.html: Founded in 1993, coordinates many of Japan's domestic and global environmental efforts, including support to NGOs.
- GRIPS Development Forum www.grips.ac.jp/forum-e/index.htm: Research group run at the National Graduate Institute for Policy Studies, focusing largely on Japanese ODA.
- Institute of Developing Economies - Japan External Trade Organization: (IDE-JETRO) www.ide.go.jp/English/index.html: Formerly focused on the Asia-Pacific region, IDE-JETRO pursues research projects primarily on economic, political and social development initiatives overseas.

NGOs

- Japan Platform
  www.japanplatform.org/E/index.html: Overarching network, affiliated with the Japanese ministry of foreign affairs, designed for NGOs that receive Japanese ODA support for their activities overseas.
- Peace Winds Japan
  www.peace-winds.org/en/: Large Japanese NGO focused largely on humanitarian relief and peace-building efforts. Has an American branch based in Seattle.
- Japan Center for a Sustainable Environment and Society (JACSES)
  www.jacses.org/en/index.html: an NGO whose monitoring reports take a watchdog role towards Japanese ODA, emphasizing environmental implications of development plans overseas.

But strategy might also mean a 'win-win' scenario for the Japanese economy, in which Japan's own economic rebound is linked to development overseas. This reflects in part the persistence of growth-oriented views in Japanese aid debates, particularly insofar as these suggest that aid should make areas more attractive for private investments that are judged to be the core for sustaining long-term prospects in developing nations.

The vagaries of public support

And herein lies the central tension for Japanese aid: the perceived lack of public support. Of course, opinion polls generally show that the Japanese view ODA positively, and, with the important exception of vocal criticism of China a few years ago, there are virtually no political gains for candidates espousing an anti-aid line. But development assistance is a relatively low priority, one that has to compete for attention with a rickety public pension system, chronic unemployment and a lagging birth rate – problems the national budget, already deeply in the red, is expected to solve.

Despite calls from overseas and within Japan to increase its overall aid volume, this is hardly the time to expect even Japan's bolder leaders to spend their limited political capital on fighting with budgetary hawks over ODA figures. The long-ruling Liberal Democratic Party fell from power briefly in 1993 but climbed back over a fractious set of opposition parties by late 1994 and had a remarkable resurgence under the personally popular Junichiro Koizumi from 2001 to 2006.

Largely ineffective prime ministers followed, with the LDP finally losing to its primary opposition party, the Democratic Party of Japan, in 2009. The new and charismatic prime minister, Yukio Hatoyama, entered office with high hopes and wide popularity, but the party's initial efforts to wrest control away from the bureaucrats on whom the LDP had long relied ended up souring relations with the ministries while doing little to help the country's most pressing economic problems.

When an embattled Hatoyama stepped down in summer 2010, the party turned to the highly intelligent and progressive Naoto Kan, who is at best unproved in his ability to tackle major problems, and who faces major challenges within his own party, let alone with the opposition LDP. He has signalled an intention to focus primarily on reducing the government deficit through a combination of tax hikes and spending cuts, both of them painful options for voters. A substantial increase in aid, despite some of Hatoyama's promises and Kan's apparent interest in it, seems absurdly far-fetched in the near future.

Indeed, if aid were to rebound, the political push would likely have to come from the business community that has in many ways been sidelined by the government's efforts to align aid practices with global expectations. It is not that they oppose aid to support environmental efforts, to promote gender equality or to heal post-conflict regions. But for years, many Japanese businesses saw clear connections between their own economic plans and the tools the government used to promote East Asian model-style initiatives elsewhere, with heavy doses of infrastructural investment and an eye on national growth.

The issue, then, is not really opposition to aid, but rather lukewarm support for it when a shrinking economic pie demands that one set painful priorities. Despite the hopeful calls in the OECD peer review and MOFA's own report, it is hard to see how even demonstrations of aid's effectiveness can generate real enthusiasm among Diet members for larger commitments.

Many of the same intellectual and cultural transformations that have shaped the worldviews of Japan's aid officials have permeated Japanese society more broadly as well. Women's rights, environmental conservation and the reduction of poverty are all understood as arenas in which Japanese aid can and should make a difference. Japanese are, broadly speaking, proud of their country's accomplishments in all of these areas, but none has come close to matching the post-war drive for economic growth as a unifying national goal.

For decades, Japanese ODA retained broad public support because it could be understood as a form of generosity that reflected the wisdom of Japan's own experiences – one that contributed to the rapid growth witnessed around the Asia-Pacific region and that paid a number of bills in Tokyo as well. As Japanese aid quality improves, at least as understood by its fidelity to principles held by many other aid donors and multilateral organizations, it may be increasingly difficult for even its most fervent supporters to defend its quantity. ■

- Arase, D.M. (1995) *Buying Power: The Political Economy of Japan's Foreign Aid.* Lynne Rienner.
- Leheny, D. and Warren, K. (eds) (2010) *Japanese Aid and the Construction of Global Development.* Routledge.
- Yasutomo D.T. (1986) *The Manner of Giving: Strategic Aid and Japanese Foreign Policy.* Lexington Books.

A longer version of this article, including references and citations, can be found at www.thebrokeronline.eu

The fate of migration in Danish development policy

Opting for the middle ground

Migration has long been perceived as a completely distinct area of concern from development. In 2000, the Danish International Development Assistance Agency (Danida), which had traditionally taken this view, appeared to change course and adopted migration as a valid element of its development programme. A year later, the Danish Ministry of Foreign Affairs commissioned a study, called *The Migration-development Nexus*, which was to reveal present and potential links between migration and development.

The Danish Centre for Development Research was chosen to undertake the study, and I was appointed coordinator of the project. Together with international colleagues, we produced a state-of-the-art study with policy recommendations. We distinguished three 'policy logics' at work in the migration-development field: a *closure and containment* logic; a *selectivity* logic, which is less restrictive but scarcely addresses the root causes of migration; and a more progressive *liberalization and transnationalism* logic that promotes the benefits of considering mobility as an integral element of development. Nearly a decade later, we can only conclude that adopting this progressive approach was a bridge too far for Danida, which ended up embracing the compromise by opting for a selectivity logic.

By **Ninna Nyberg Sørensen**, senior researcher at the Danish Institute for International Studies in Copenhagen, Denmark.

Danish development policy has traditionally focused on poverty reduction and sustainable development. In recent years, development cooperation has increasingly been integrated with foreign policy and security concerns. One result was that migration – the costs and gains of human mobility – became a frequently mentioned issue in Danida policy papers. This started in 2001, when concerns about how to stem unwanted migration were high both on the EU and the national agenda.

In February 2001, the then Danish minister for development cooperation, Anita Bay Bundegaard, of the Social Liberal Party, began to explore new ways of handling migration by introducing the concept of 'poverty refugees'. Her objective was to prevent refugee flows by directing aid to selected war- and famine-afflicted areas of the world. This rather provocative concept was put forward during a time of heated debate over the volume of immigration to Denmark. It was quickly disavowed by the Social Democrat prime minister, but the minister of internal affairs, Karen Jespersen, known for her hard-line views on immigration, was quick to capitalize on the momentum and invite the two ministries to cooperate. Together, albeit probably with different motives, the two ministers established cooperation aimed at elevating the theme during the Danish chairmanship of the European Union in the latter half of 2002.

Exploring the nexus

In search of more knowledge to support their new policy intentions, the ministry of foreign affairs commissioned a study to the Centre for Development Research, which has since merged with the Danish Institute for International Studies. In September 2001, we started our research to uncover potential links between migration and development. Based on available evidence, our 2002 report asserted that:

- Policies on development aid, humanitarian relief, migration and refugee protection are internally inconsistent.
- Development aid is more effective than humanitarian assistance in preventing violent conflicts, promoting democratization, and encouraging development investments by migrant diasporas.
- Poverty reduction is not in itself a migration-reducing strategy.

HH / Ake Ericson / WPN

Upon arrival at the refugee centre outside Copenhagen, fingerprints are taken the old-fashioned way with ink, Padborg, Denmark , March 2007.

- Aid to developing countries receiving large inflows of refugees is poverty-oriented to the extent that these are poor countries, but it is uncertain what effect it has in terms of reducing the number of people seeking asylum in developed countries.
- There is a pressing need to reinforce the image of migrants and refugees as contributors to development. Migrant remittances are double the size of official development assistance and target the poor.
- If conflict resolution is accompanied by large-scale repatriation, remittances will diminish. This results in increased pressure on scarce resources, and a higher potential for renewed conflict. There is an argument against repatriation on these grounds.
- Mobile populations have proven to be beneficial to local development in times of deteriorating economic conditions as well as during conflict. Restrictive migration policies may hinder such gains.

Our study moreover identified three 'policy logics' at work in the migration-development field:

- A *closure and containment* logic aimed at controlling migrants and refugees. Development policy becomes an instrument of migration policy rather than the other way around.
- A *selectivity* logic both in the application of aid and the reception of migrants. While it is less restrictive than the closure and containment logic, it remains essentially palliative without addressing the root causes of migration.
- A *liberalization and transnationalism* logic in the fields of labour mobility, diaspora activities and refugee protection. This implies a consistent application of development and humanitarian aid, a gradual relaxation of immigration measures, a gradual liberalization of the global labour market, increased resettlement quotas for refugees currently hosted in developing countries, and the provision of dual citizenship to encourage mobility and positive intervention in the homeland by migrants and diasporas.

Population mobility, so the study stressed, is a key feature of development. Building on that notion, our study was innovative in that it included both 'forced' refugee and 'voluntary' migration movements, promoting policy development for these groups along a continuum, rather than in separate policy areas.

Denmark managed with this study to influence international development discourse – for example the 2002 European Commission Communication 'Integrating migration issues in the European Union's relations with third countries'. When all was said and done, though, the question still remains: what became of the migration-development thinking in Danish foreign aid policy?

Much ado about nothing

In November 2001, the political situation in Denmark changed drastically. The social-democratic minority government lost to a coalition of two centre-right parties, which formed a minority government supported by the right-wing Danish People's Party. This is the political situation up to today. In January 2002, the new Danish government announced its decision to enhance the nexus between its aid and refugee policies as part of the overall focus on poverty reduction. This was later reflected in the 2007 Danida policy document 'A world for all'. In this document, the Danish Government writes that it prioritizes 'the link between migration and development' in its bilateral and multilateral development assistance, with the 'dual aim of tackling the growing challenges presented by migration and more effectively deriving benefits from its opportunities'.

A careful reading of the policy document reveals that a combination of population growth in the South and greater awareness of better living conditions in the North presents >


HH / Ake Ericson / WPN

the international community with a development challenge. On the one hand, migration can be 'an engine for development' through the transfer of experience, knowledge and remittances. On the other hand, brain drain and the rising death toll of 'illegal immigrants attempting to escape poverty and insecurity' provides fuel for a policy discourse on the 'management of immigration, security and protection'. Indeed, accelerated migration between the countries in the South and growing migration pressure especially from Africa to Europe, including Denmark, resulted in additional policy initiatives regarding 'migration management', as is evident from more recent policy documents.

Today, it is fair to say that the ideas put forward in our study, which showed the potential benefits of a progressive policy based on a *liberalization and transnationalism* logic, never really made any headway on the Danida agenda. It is therefore tempting to conclude that the migration-development nexus has suffered a 'Much ado about nothing' fate in Danish development thinking. The fashionable concept certainly found its way into policy vernacular, but scarcely led to much synthesis between policy formulation and action.

It is true that, initially, thinking in terms of the migration-development nexus was welcomed and embraced by the foreign ministry. An impending EU chairmanship offered a good opportunity to 'brand' Denmark in the rest of Europe as a progressive player in the field of development cooperation. Two related events, however, severely restricted migration-development policy thinking.

The first was a change in Danish government in November 2001, which led to a hardened anti-immigration discourse and immigration policy. This political change introduced the possibility of Danish development aid being used *politically* for migration, a development Danida policy makers and practitioners would have done almost anything to avoid. The second, derivative effect was that Denmark became known as a hardliner or even as a 'rogue state' among other member states in the United Nations family because it started to repatriate refugees.

Opting for compromise

Danida went from being one of the first aid agencies to take up the migration-development policy discourse to one that stepped back and embraced the reigning understanding that 'voluntary' migration is caused by poverty and economic and social inequality, while 'forced' migration is caused by social or political conflicts or natural disasters.

Instead of developing comprehensive policies, Danida continued to develop policies along two traditional lines. One was geared towards securing genuine refugees' basic protection, and another was geared towards tackling the supposed root causes of migration. The refugee question was dealt with by the Office of Humanitarian Assistance, part of Danida, who used a 'neighbouring areas' approach to work with durable solutions for refugees in developing countries. The migration question was relegated to a poverty-oriented approach, building on Danida's traditional sector policy.

Danida staff, it is important to stress, had a clear interest in this approach. Pairing the poverty approach to the migration policy vernacular of 'combating the root causes' enabled Danida to protect a declining development budget from being used politically for migration and go about business as usual. Indeed, the Danish aid budget has been off limits for spending on migration reduction measures. EU border and immigration policy (and practice) reveals significant and sustained moves towards the securitization of migrants and the externalization of border controls to countries of origin and transit. The scope for genuine development cooperation with third countries therefore remains limited. In light of this, Danida's simultaneous push for policy formulation and its protectionist attitude in development practice could be read as evidence that *a logic of selectivity* has been chosen in order to avoid the anti-immigration *closure and containment logic* often promoted in times of economic crisis.

It is probably not conceivable that a transnational policy logic benefiting migrants and poor people in developing countries could have been developed during the climate of anti-immigration that was ushered in with the start of the new millennium. And taking into account the enormous gap between the policy-developing and aid-executing offices – a gap further widened by the 2003 decentralization of operational power over Danish development assistance from headquarters to the embassies – it should come as no surprise that the rhetoric of migration-development policy has hardly affected concrete development practice.

I remain convinced though that much can be gained by organizing development policy and practice around migration issues in countries and regions where migration seems to be the strategy poor people use to combat poverty. Under heavy pressure to produce coherent policies which show some results on the national problem agenda, Danida has managed to take up this challenge, while at the same time confine it to the humanitarian office. As a result, development – and not security – has remained the main focus of Danish development policy. ■

The bursting of the migration-development bubble

Ninna Nyberg Sørensen's reflections on Danish development policy point to how, during the first decade of the millennium, policy makers worldwide seized on the potential of migration to enhance development. 'Leveraging remittances' and 'engaging the diaspora' became new mantras of the development community. The study that Danida commissioned us to undertake, eventually published in 2003 as *The migration-development nexus*, helped prompt this resurgent interest in the relationship between migration and development.

Why did this relationship become the focus of attention at this time? What accounted for its newfound popularity? Finding an answer to these questions could be instructive, since most researchers are keen for their research to influence the world for the better.

Looking at recent history might help our understanding. Interest in the link between migration and development has ebbed and flowed over the last half century, partly in response to shifts in global migration patterns and the wider political economy.

The debate in the 1960s and early 1970s on the relationship between migration and development focused on the reasons for migration – said at the time to be poverty or income differentials – and the consequences of highly skilled migration, popularly referred to as the 'brain drain'.

The debate's focus shifted during the second half of the 1970s as labour markets in affluent countries contracted, guest-worker schemes were curtailed and the stream of migrants from former colonies wound down. In this context, return migration became a prominent theme in the debate as policy makers pondered how best to 'reinsert' former migrants into the economies of their homeland in order to promote development. The brain drain debate continued too as critics highlighted the damaging effects of recruiting skilled workers from developing countries.

A more sophisticated appreciation of the relationship between migration and development emerged at the end of the Cold War in the late 1980s and as globalization gathered momentum. There was a refinement of the link between poverty, development and migration as it became clear that it is not the poorest of the poor that migrate, but rather those with sufficient resources to enable them to move. The logical conclusion of this was that development, in the short to medium term, would lead to more, not less, migration.

From around 2000, the migration-development nexus seized the attention of policy makers and development agencies, as evidenced in an explosion of interest in remittances and their potential for development. Policy makers in governments and in multilateral bodies, such as the World Bank, woke up to the realization that large sums of private money were being transferred as remittances to the developing world and were a potential source of development finance.

Why then did this explosion of interest happen at this time? One reason was perhaps the mediocre results achieved by other kinds of intervention – such as aid – whereas now there appeared to be an attractive alternative source of development finance. And most importantly, remittances were private money transfers, not from the state, and they potentially obviated the need for aid, it could be argued.

Devesh Kapur, associate professor of political science at the University of Pennsylvania put this perspective succinctly in the chapter he wrote in a 2005 World Bank publication, *Remittances: development impact and future prospects*. He argued that remittances 'strike the right cognitive chords. They fit in with a communitarian "third way" and exemplify the principle of self-help. People from poor countries can just migrate and send money back that not only helps their families, but the host and recipient countries as well. Immigrants, rather than governments, become the biggest provider of aid. The general feeling is that such private foreign aid is more likely to go to people who really need it ... What could be better?'

This confluence of sanguine views on migration, remittances and development – which could appeal to everyone, from hard core neoliberals to grass roots communitarians – was arguably one of the reasons for the explosion of interest.

But has the migration-development bubble now burst? At the very least, the issue seems to have gone off the boil, eclipsed by the world financial crisis and the subsequent stampede to cut deficits at the behest of the credit rating agencies. In countries such as Denmark and the United Kingdom, immigration concerns have once again trumped development interests, which have always been much lower down the policy pecking order.

This retreat was well underway in the United Kingdom before the coalition government took office in 2010, but the trend has been accentuated by the new government anxious to address artificially inflated public immigration fears. Taking the long view though, the case for the benefits of linking migration and development remains a sound one, and is well worth arguing for, not least in terms of enlightened self interest. ■

By **Nicholas Van Hear**, deputy director of the Centre on Migration, Policy and Society (COMPAS), University of Oxford, UK.

Business partner of the poor

Social enterprises are on the rise in developing countries. Mark Joaquin Ruiz, co-founder and managing director of MicroVentures Inc. in the Philippines, talks about the role of social business enterprises in empowering the poor, and explains what research is needed to further strengthen this relatively young field in the Philippines.

Mark Joaquin Ruiz is a social business entrepreneur. He is co-founder and managing director of MicroVentures Inc./Hapinoy, a microfinancing business development services company. He is also the founding partner and board member of Rags2Riches, a social business enterprise helping a community create fashion designer items from recycled rags. Ruiz co-founded the WhyNot?Forum, an innovation website with the motto 'Inspiring Filipino Ingenuity', and is also a part-time faculty member at the Ateneo de Manila University in the Philippines, where he teaches a class on business innovation management.
Interview by **Anna Meijer van Putten**.

Through their Hapinoy programme, MicroVentures aspires to be a business partner of the poor by supporting sari-sari stores, the smallest retail unit in the Philippines. How does this work?
We use Hapinoy to work with micro-entrepreneurs and provide business development services so people at the 'base of the pyramid' (BoP) can expand their businesses. A microfinancing institution provides access to capital, and we provide access to market opportunities.

We looked at the entire value chain and decided to start with micro-entrepreneurs in distribution and retail, and thus started with sari-sari stores – literally the smallest retail outlets in the Philippines. The 700,000 or so sari-sari stores in the country account for 30-40% of total retail sales in the Philippines.

Sari-sari is the Filipino word for 'many or various kinds'. Sari-saris are hole-in-the-wall stores, mainly run by women, selling basic commodities for an average taking of 10 dollars a day. Hapinoy has become a network of sari-sari stores, which helps these micro-entrepreneurs get the most out of their businesses, however small they may be.

As the network of Hapinoy sari-sari stores grows, we progressively integrate them into the micro-entrepreneur production chain, giving them access to the market. They can also be directly linked to partners with a larger manufacturing capacity. This enables sari-sari store owners to increase their profits and at the same time serve as a channel for the manufacturer to reach more customers.

All of Hapinoy's community stores are owned by female micro-entrepreneurs. Do you view the Hapinoy programme as a viable tool for achieving women's empowerment?
Studies have shown repayment rates are better when its women who are receiving the loans – not only in the Philippines, but globally as well. Studies also show that when it is women who are earning the money, it directly benefits the household.

That's how the microfinancing industry essentially thinks. Indeed, sari-sari stores lend themselves more to being run by women than men. They are launched by women who don't have a source of livelihood. Their husbands are mostly labourers: tricycle drivers, porters and construction workers. When women are left at home, they look for means of creating additional income, and sari-sari stores become a viable option.

What are the most poignant challenges facing social entrepreneurship today?

Social business enterprises – entities designed to tackle social problems within a business model framework – are debating whether social businesses and social innovation should be for-profit or non-profit. Some feel that as long as it remains a social innovation it can be considered a social enterprise.

NGOs have shown some discontent these past few years about the fact that this kind of work has been for-profit. Their logic is that you shouldn't mix social development with business. However, I believe you can easily use a business model and a market-based approach to tackle social problems.

In my view, social enterprises haven't blossomed as much as they could have because awareness is still very low. And I still see people questioning whether this *really* is a viable option. Having said that, I think we are nearing a tipping point. There are a lot of fresh business graduates in the Philippines who recognize the potential of social enterprises.

What kind of research do you think would benefit social enterprise the most?

I would like to see more research on social return on investment (SROI). SROI reflects the social value a business generates, as opposed to merely its financial value. I can share how we at MicroVentures have been able to help out sari-sari storeowners with the business side of their enterprises, and how they have grown as business women. But the social impact is something we have not been able to quantify yet.

It would be very interesting to introduce a new system of measurement, a new vocabulary that would accurately gauge SROI. Not just to determine whether women have increased their income, but to measure social progress. Has their children's health been improved? Has the family's quality of life truly improved? This would give us an idea of the impact that we are having on financial, and, more importantly, social returns. It would help build the case for social entrepreneurship as a sustainable model that tackles the major problems of our time, especially regarding poverty and marginalization.

Although BoP has been extensively researched globally, this has not happened in the Philippines. This research needs to be localized. In this country, 50-60% of the people live below the poverty threshold. We have a huge BoP sector. The particular research that needs to be done should focus on how to create and redesign products and services for the BoP.

Many companies use a simple top-down approach. MicroVentures has been trying to introduce an automated sales system for our stores. We've talked to computer manufacturers. Their approach is to take a big computer and make it smaller for the stores, rather than to redesign it from the ground up. BoP research should focus on inventing something from the bottom up, rather than saying 'this is how it works on a large scale – let's just scale it down'.

How do you think this redesigning should take place?

I teach a class in business innovation management at the Ateneo School of Management, one of the leading universities in the Philippines. This has exposed me to human-centred design, an approach that puts you actively in the shoes of your customer, or in my case the storeowner.

I really try to co-create the product or service with them. That is the core issue. Reinvent by having empathy for your client, rather than saying 'this is how it works'.

IDEO, a leading industrial design firm, has released an open-source human-centred design toolkit. That's very useful for the work we do at MicroVentures, where storeowners are involved in creating and designing services. For example, we recently introduced over-the-counter medicine in our Hapinoy stores, to make affordable medication available to local communities. Our storeowners were involved every step of the way, through brainstorming sessions and workshops.

Finally, what's your view on the future of social enterprises?

At MicroVentures we have a saying: 'the poor are powerful'. It's just that they never had the right bricks to build with. I'm hoping social entrepreneurs can help create a world in which the poor are able to participate in the formal market economy. Whether they be sari-sari storeowners, micro-producers or micro-agricultural farmers. ■

On the website

Is less really more? Our green economics blog continues with an assessment of reduced production and increased happiness, whilst guests on the nano blog examine the need to restrict nanotechnology in military and medical fields.

Restricting nanotechnology

Recent experts on the nano blog include Major General (ret) Kees Homan, whose post on autonomous killer robots highlights the ethical issues associated with unmanned combat vehicles. 'It is clear why some politicians and the military are enthusiastic about robotics. War is expensive and bloody. But without a moral context, we are going to live in a world without meaning, in which taking the life of another person would be no more wrong than unplugging a computer for good.'

In another post, Dr. Bärbel Dorbeck-Jung, associate professor of medical and technology regulation at the University of Twente, outlines issues relating to the regulatory changes of nanomedicine. 'Some have questioned the appropriateness of existing regulations … More specifically, pharmaceutical companies and pharmacists have drawn attention to the difficulties of complying with the regulatory obligation to assess the environmental impact of (nano-) medicines.'

Power to the young people

New blogger Reinout van Santen, based in Bhutan, argues on the Treehugger blog that organizations that give 'away money to avoid underspending are unethical … I would argue that hiring more young talent, could have a positive result on your organization. For instance, entrenched thinking and accepted malpractices should be questioned more often. Experience is not always, and not only, a good thing.'

By **Louise Stoddard**, web editor

Get green, get happy?

Reuters / Kai Pfaffenbach

Recently we have continued our coverage of green global economic systems, reporting from the International Society for Ecological Economics conference in Germany.

Juliet Schor, professor of sociology at Boston College and co-founder of the Center for a New American Dream, was one of a number of guest contributors to the blog. She argued that 'taken together, a decline in enterprise size and a reduction in average hours of work can facilitate the growth of a low-impact sector of self-providing households, self-employment and small-scale businesses and co-ops. That's because people will have more time away from their formal jobs and the competition from large enterprises will abate … Indeed, household production should no longer be seen as an antiquated pre-industrial paradigm. Rather, it's one of the new possibilities that are available to us in the 21st century. In addition to its economic and ecological aspects, it can also be a highly desirable lifestyle, allowing people more creativity, freedom and flexibility.'

But will such an approach really make for a more environmentally friendly and happier society? Peter May, professor at the Federal Rural University of Rio de Janeiro, Brazil, and associate director of Friends of the Earth – Brazilian Amazon, discussed how 'crises tend to derail our ability to foster resilience, since institutions have become more focused on their ability to make short-term adjustments rather than to adopt a long-term "project". The project of the modern capitalist system is unbridled growth, while we question whether growth will foster societies' long-term ability to provide improved well-being and capabilities. What exactly we are promoting in its stead is still a bit nebulous. There's a lot of talk about happiness, but the detractors tend to show high positive correlations with income – up to a point at which happiness just levels out and may even decline. This is pretty damning for growth, but maybe there are other ways for the rich to feel better than happiness.'

Peter Söderbaum, professor emeritus of ecological economics at Mälardalen University, Västerås, Sweden, asked whether scholars should become political activists at all. 'A specific interpretation of sustainable development is an ideological or political orientation that may challenge or support other ideologies in society. If things are going wrong in society, we cannot avoid discussing dominant ideologies such as the economic growth ideology, neo-liberalism, social democracy, etc. … Intellectually and ideologically, we have to reflect upon this mismatch between sustainable development and the most influential type of organization in our economies. Business-as-usual economics creates narrow business-as-usual interpretations of sustainable development. Moving from a monopoly of neoclassical economics to pluralism is today one of the most important single political steps that I can think of.'

This blog is coordinated by Anna Meijer van Putten. For more blog posts and videos visit www.thebrokeronline.eu/Global-green-economics

Microfinance – discrediting the myth

***Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism*, by Milford Bateman. Zed Books, 2010, 262 pp.**

A review by Bertine Kamphuis

Microfinance feels good. It claims to lift the poor out of poverty and increasingly pays for itself. But does it? In his 2010 book, *Why Doesn't Microfinance Work?*, Milford Bateman discredits microfinance for doing almost exactly the opposite and blames Wall Street-style practices for amplifying its negative effects.

His book is published at a time when microfinance has re-invented itself. Even its long-time proponents have to admit that there is still little, if any, evidence that microfinance lifts the poor out of poverty. Another publication, *Portfolios of the Poor* by Daryl Collins and colleagues, published in 2009, shows that, rather than reducing poverty, microfinance can help the poor to cope with the unpredictability of their low incomes.

The obstinate optimism surrounding microfinance is largely based on the assumption that if the poor choose to take – and largely repay – microfinance loans, then they must be benefitting from them. Bateman claims that this assumption simply does not hold, and gives three reasons why microfinance does not work.

First, local markets generally cannot absorb the new economic activities of microfinance clients, which push down prices and put entrepreneurs out of business. Increased competition can lead to more business efficiency or to innovation, but nothing is gained when one coffee bar is simply replaced by another.

A second reason is that the poor rarely default on their loans, even if their businesses fail. The widely held assumption that repayment indicates business success misses this point. In fact, it may well hide increasing indebtedness.

Third, microfinance's preference for individual, 'survivalist' micro-enterprises ignores the importance of scale, connectivity, technology and innovation for triggering local economic development. If microfinance crowds out lending to small and medium enterprises (SMEs), as the book claims, then the effects will be negative, resulting in a 'primitivization' of agriculture, increased dependence on imports and a weakening of the local economy.

Bateman draws vivid parallels between the commercialization of microfinance and Wall Street-style practices, which have created the first 'microfinance millionaires'. Perverse incentives for loan officers encourage aggressive strategies that push poor households to borrow more than they can afford – a policy all too reminiscent of sub-prime mortgage lending.

Experiences in regions that have been oversaturated by microfinance undermine the notion that more microfinance equals more development. Bateman urges governments worried about the build-up of microcredit bubbles and their possible sub-prime-style bursting to rethink microfinance.

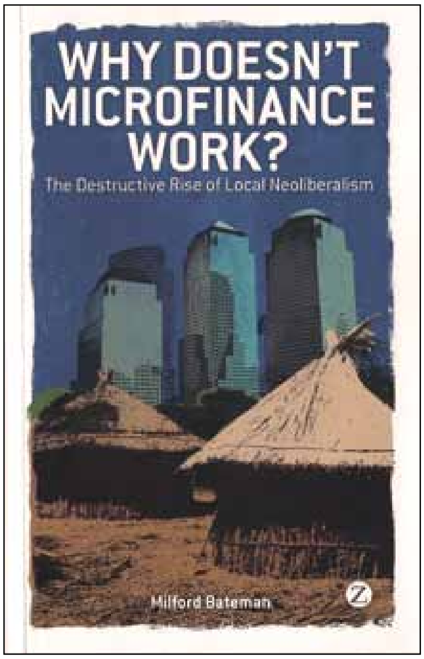
As an alternative to microfinance, Bateman favours conditional cash transfers that target 'at-risk' groups to provide people with the cash to pay for urgent needs. Credit unions can also provide these benefits, he argues, but at much lower costs. He refers to experiences in East Asia, Spain's Basque region, northern Italy, India's Kerala state and Vietnam to show how alternative models for local business finance can promote socio-economic development through stronger state or community involvement.

Not only does microfinance *not* work, in Bateman's opinion, but it actually ruins more effective opportunities for financing local businesses. His book would have benefitted from more evidence, however, to drive home his claim that microfinance is crowding out SME financing. As the 'new wave' microfinance institutions can increasingly pay for themselves, are they really eating up scarce donor money? Do developing countries have the wherewithal to decide against the mainstream microfinance model? The wide range of case studies of unconventional local finance described by Bateman seems to suggest that they do.

Bateman criticizes multinationals that include micro-enterprises in their distribution chains. The 'win-win' effects only start to fade after the market becomes saturated with too many micro-enterprises. Perhaps the solution lies in limited entry rather than dismissing this opportunity altogether.

Bateman is too quick to reject microfinance on grounds that are just as dogmatic as those propounded by microfinance enthusiasts – even though he does bring reality back into a debate in which some neoliberal assumptions have been left unquestioned. ■

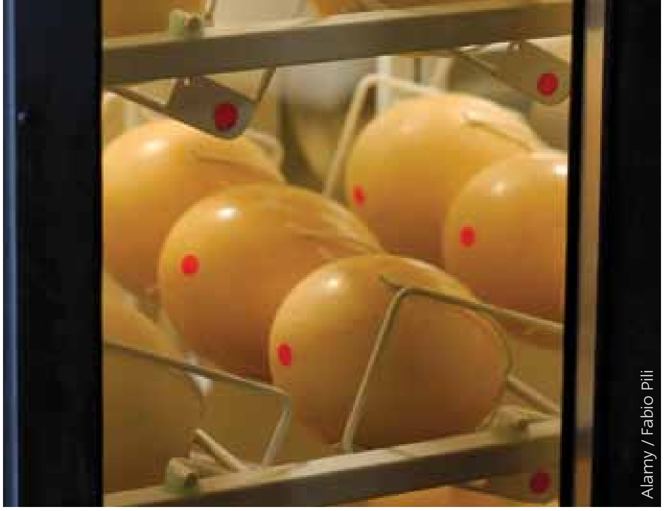
A longer version of this review can be found at www.thebrokeronline.eu



Bertine Kamphuis lectures in political science at the University of Amsterdam, the Netherlands, and has carried out research on socio-economic development, specifically on microfinance in Afghanistan.

column

Free trade or fair play?


Alamy / Fabio Pili

One of my PhD students works for the Millennium Villages project – the much publicized programme aimed at assisting communities to lift themselves out of poverty. Coordinated by Jeffrey Sachs, director of the Earth Institute at Columbia University, and supported by everybody from Bono to the Pope and Ban Ki-moon, Millennium Villages fights poverty by tackling the impediments to development at village level.

A few months ago, this student showed me the results of the interim evaluation for West Africa. These showed some advancement, but overall progress was, well, slightly disappointing.

'Perhaps,' my student speculated, 'there can be only limited success when fighting poverty at village level.'

I nodded understandingly.

'Maybe we should tackle bottlenecks at higher levels, reform institutions and create transparent value chains.'

I nodded again.

'Perhaps West Africa should regulate imports for a period.'

I raised an eyebrow.

Economists hail the virtues of free trade. It's at the heart of our doctrine. We form a closed circle, hold hands and sing praise to the models of Ricardo, Heckscher and Ohlin. A plea to regulate trade is one of the most effective ways of marginalizing your position in this profession, if not inviting outright excommunication.

But is such a plea wrong?

Economists believe in free trade because of its efficiency gains. But since the days of Adam Smith, critics have balked at the notion and countered with their *infant industry argument*. This argument is based on the idea that fledging industries need protection during early stages of development. This enables them to 'learn by doing' and lower their production costs in order to give them a competitive edge.

Many economists reserve a pitiful smile for anybody brave enough to advance this argument in public. They believe there is no incentive to lower production costs when producers are shielded by import tariffs. They hold that producers will lobby and bribe policy makers for continued protection – to the detriment of domestic consumers, who have no choice but to overpay for inferior products. And they argue that history has convincingly demonstrated the fallacy of the infant industry argument.

But has it? Many developing countries experienced faster economic growth in the 'bad old days' of trade regulation than during the free trade era that followed. Without temporary protection, which productive sectors in Africa should we reasonably expect to gain a foothold in the international arena? Are many African nations not locked into the role of eternal supplier of raw materials if they cannot develop processing sectors?

Virtually all high-income countries have built their production base on the foundations of protectionism, lowering trade barriers only after domestic producers have learned how to take on foreign competition. Asian tigers have skillfully combined protectionism and assisted producers to compete in export markets. They didn't pursue a free trade strategy.

Recent research on the comparative development trajectories of Southeast Asia and sub-Saharan Africa funded by the Dutch Ministry of Foreign Affairs' Tracking Development programme suggests that industrialization in Asia started with successful agricultural development. If we can shift these insights to Africa, we should emphasize the importance of raising agricultural productivity and processing raw materials locally in order to add value. This presupposes a secure and viable market. There is no reason why West African countries can't support stable cotton or chicken-processing industries that trade freely in the region, but are temporarily protected from outside competition by a common tariff.

If we fail to think beyond our paradigms of free trade, and forbid African countries to follow the same development strategies that we did, then it is hard to imagine how such developments can take place. The sad truth is, of course, that we cannot be sure that abandoning the free-trade agenda would help African countries. At present, the free traders have their set of beliefs and the anti-globalists theirs. But perhaps it's time to have an open mind and encourage some experimental policy reform that would inform the debate with hard evidence. ■

By **Erwin Bulte**, professor of economics at Wageningen University and Tilburg University, the Netherlands. Bulte is also a research fellow at the University of Cambridge, UK, and an advisor to the UN Food and Agriculture Organization.