March 23,1994

Mr. Brian Lamb
C-SPAN
400 No. Capitol Street NW
Washington,D.C. 20001

Dear Mr. Lamb

A few weeks ago, during the heigth of the frustration with the war in Bosnia and the UN/NATO inability to function well you had a discussion about the United Nations with a Princeton professor. His name escapes me.

I am writing to suggest another program to discuss the under-funding of the United Nations, especially in view of the many new missions it is being asked to perform.

In the Summer 1993 issue of the World Policy Journal Martin Walker of the Guardian proposes a workable solution to the funding deficit.

He suggests that by levying a miniscule fee on every global financial transaction enough money could be generated to pay for the peace-keeping activities of the U.N., as well as some of its other worthwhile projects .

For instance, in 1992 the total value of the world's currency transactions was approx. $ 280 trillion. A fee of only .003 % of each transaction would result in $ 8.4 billion. To make this number more understandable it amounts to $ 30.00 per one million dollars in activity. This fee would be deposited into a UN special account by the banks, brokerage houses and financial institutions at the time of the financial activity, electronically.

Of course this proposal would have to be approved in the United Nations by all members - no mean feat -but the idea makes sense to me. Do you not think a C-SPAN program to give this idea the light of day, to examine it for its possibilities, would be of national interest to your auduence?

If this new,tender agreement between Croatia and the Bosnian Muslims holds,then shortly I suspect the U.S.Congress will be trying to find money to pay for American/UN troops as peacekeepers. It won't be easy.

I am enclosing a copy of Mr.Walker's article.

I've never been able to connect by phone with C-SPAN (perhaps because I live in the Sierra Foothills,and still use a rotaryx phone!) but I applaud you for the quality of your work.

Sincerely,

[redacted]

Auburn,CA 95602

[redacted]

Summer 1993, Volume X, No2 $7.50

WORLD POLICY JOURNAL

Martin Walker is the U.S. bureau chief, and formerly the Moscow bureau chief, of The Guardian. *He is the author of* A Kind of Solution: The Cold War and the Making of the Modern World.

Global Taxation

Paying for Peace

Martin Walker

It is now a generation since the space program first delivered that hauntingly beautiful photograph of the planet earth as seen from orbit. Slowly, the image has crept deeper into our consciousness, a tangible focus for the elusive concept of the biosphere, for Spaceship Earth itself. But if we now have the icon to revere, we cannot begin to grasp the reality because we lack the tools to seize it and the structures to manage the planet's stewardship. The prime reason for this is the fraud that has always lain behind man's feeble attempt at creating such structures, including, in our time, the United Nations.

Political power is, at root, the ability to coerce people to follow a single will. Whether by consent or by intimidation, by taxation or physical conscription, the principle is constant even while the means vary. The United Nations as an institution was established without the authority to tax, and without the physical power to coerce. For the first forty-five years of its existence, when the Cold War made international consensus almost impossible, this was probably just as well. But now that consensus within the Security Council has become very much more common, the gap between the demands upon the United Nations and its ability to meet them, whether with cash or troops, has become embarrassingly wide.

Global bills are now being drawn up, and the sums are daunting. There is the environmental bill, the U.N. peacekeeping bill, the "Save-Russian-Democracy" bill, and the Third World debt bill. Different forms of international mechanisms are being cobbled together in an effort to find even the down payments for these bills. The Group of Seven industrialized nations are trying to do something about Russia, the Club of Paris is trying to deal with debt, and different forms of national and multinational solutions are still being explored for the various ecological crises that require us to consider planetary solutions for planet-wide problems.

Fortunately, the very development that ended the Cold War and created the possibility of consensus at the United Nations also provides a glittering opportunity to close the gap between means and costs and give the global community the tools required to deal with its problems. There is a hitherto untapped global resource, so vast that the wealth it represents is almost beyond calculation. It is also beyond political control and beyond the reach of our traditional methods of taxation —largely because taxation remains a monopoly of the nation-state. But the global economy has outgrown the nation-state, and the concept of taxation will doubtless change as well. Indeed, the European Community budget is already financed by a levy on the value-added taxes collected by its member states. The principle of supranational taxes for supranational purposes has been established. Where can it go from here?

A Global Economy with a Vengeance

For future historians, the Reagan-Thatcher era will be noted less for the renewal of the West's military will and the prosecution of the New Cold War than for the liberalization of financial markets these policies produced. The global economy passed through a long gestation in the nineteenth century, a feeble infancy until 1939, and a sturdy childhood from 1945 to 1974. But it exploded into the furious and barely controllable growth of adolescence after 1980. In that year, the total of international bank lending (domestic lending denominated in foreign currencies, plus cross-border lending) stood at $324 billion. By 1991, it had reached $7.5 trillion, a twenty-fold increase. (The economies of the twenty-four nations that make up the Organization for Economic Cooperation and Development (OECD) grew from $7.6 trillion to $17.1 trillion over the same period.)[1]

The degree of interdependence of the leading Western economies has intensified at an astonishing rate. By 1990, foreigners held almost 20 percent of America's debt and 34 percent of Germany's debt. In 1980, American transactions with foreign owners of securities amounted to just 9 percent of American gross domestic product (GDP); by 1990 they had increased to 93 percent of a much larger GDP. In Japan, the comparable figures were 7 percent in 1980 and 119 percent in 1990. In Britain, where the City of London played a much larger role in this global economy than Britain's domestic performance warranted, cross-border securities transactions were seven times larger than the entire British gross domestic product in 1990.

This is a global economy with a vengeance, financed and spurred on by the collapse of the old Bretton Woods system of stable currencies and a total foreign-exchange turnover of some $900 billion a day by 1991. Each week, the world's currency markets now trade sums equivalent to the total value of the American economy's output for a year.

National governments have found themselves helpless before this new global juggernaut, the Markets. The European countries plunged $20 billion into trying to sustain their exchange rate mechanism (ERM) in September 1992. This was a matter of overriding EC policy. The ERM was the essential stepping stone on the path to a single European currency, which the Maastricht Treaty had declared to be the next goal of a Europe that was expected to expand to include Austria, Switzerland, and Sweden. But the markets brushed aside this $20 billion barrier with ease, forcing Italy and Britain out of the ERM and then forcing devaluations by Spain and Sweden.

The power to assert one's own economic and taxation policies has long been the cardinal characteristic of the nation-state. That power is now in question. But so is the continued utility of the nation-state as the guarantor of internal order and prime actor in international affairs. For a growing number of countries in crisis there is now another candidate.

A Glaring Opportunity

In January 1993, the United Nations was involved in thirteen peacekeeping operations around the globe, with fifty-three thousand troops under its direct command.[2] In 1992, the cost of these operations just exceeded $3 billion; the United Nations estimates that Bosnia alone will cost at least $3 billion in 1993 and the Somalia relief operation another $1.5 billion. The United Nations is now in chronic financial difficulties, which have been only partly eased by the belated decision of the United States to repay its outstanding debt of over $400 million in irregular installments. The contributions of the country that was traditionally the second major financial supporter of the United Nations, the former Soviet Union, have also dwindled. The Soviet Union nominally paid its way by providing the United Nations with a ruble account. Since the ruble was not a convertible currency, these funds were used to finance a large number of U.N. and U.N.-related conferences on Soviet soil.

But in the current financial crisis lies opportunity. The cracking of the geopolitical permafrost of the Cold War has meant that the United Nations has undertaken more peacekeeping operations in the last four years than in the first forty-three years of its existence. The United Nations as an insititution faces a large and growing operations bill. The world has now spawned a huge global economy, a resource that is effectively untaxed.

[1] "Fear of Finance: Survey of the World Economy," *The Economist*, September 1992, pp. 8–9.

[2] "UN Is Developing Control Center to Co-ordinate Peacekeeping Role," *New York Times*, March 28, 1993, p. 10.

Why not bring the two together?

The more than $900 billion traded on the world's currency exchanges every day is recorded and most of the transactions are accomplished on the world's most sophisticated data network. They are thus, at least in theory, easily taxable. In 1992, the total value of the transactions was some $280 trillion, more than ten times the estimated value of the world's economic product. The scale is as glaring as the opportunity.

A barely noticeable electronic deduction of 0.001 percent of each transaction would be nearly enough to pay the U.N. peacekeeping bill. But why stop there? Triple the tax to a still miniscule 0.003 percent of each transaction, and the resulting $8.4 billion would finance U.N. peacekeeping and almost all the other operations of the one club to which the whole world belongs.

The tax would be applied not to individuals or to national governments, or even to individual companies, but upon the velocity of the global market itself. The frenetic financial activity of the global economy is not only a resource opportunity but a measure of global economic health as well. Insofar as the minute levy upon each foreign exchange transaction is burdensome, it is utterly fair, representing precisely the proportion that each national currency plays in the world economy. Any complaints that the dominant role of the City of London's financial markets would impose upon the British an unfair burden are easily met. The rival financial centers of Frankfurt, Tokyo, New York, and Chicago would enjoy no competitive advantage since all would be subject to the same infinitesimal levy.

Technically, such a tax would be remarkably easy to collect through the computer systems that record each trade. It would require every bank and finance house active in the global currency markets (and they are already regulated and licensed) to open a separate U.N. bank account to which the tax would automatically be transferred when each new transaction is made. A levy of 0.001 percent on each transaction would tick off $10 from every transfer of $1 million.

Would this kill the goose that lays the golden egg? At such a modest rate of tax, a sudden collapse of the global currency markets is unlikely. And if the frantic daily activity on the markets were to be moderated, this might not be a bad thing. Over a prolonged period of time, the currency markets are pretty good at judging the relative weights of national economies. On a day-to-day or month-to-month basis, they overshoot ridiculously. During the last four months of 1992, the currency markets shifted the relative weights of the British and American economies by a third, as the pound went from an overvalued $2 in September to an undervalued $1.47 by January. An external factor that moderates this speculative fray could be useful.

Speculation has given the global currency markets an unfairly bad name. The bulk of the transactions has less to do with the manipulators, whom British prime minister Harold Wilson once condemned as "the gnomes of Zurich," than with entirely legitimate trading. In a world of floating exchange rates, companies that sell goods abroad would be foolish not to ensure that the foreign currency in which they will be paid on delivery will be worth enough to justify their work. They do this by hedging, buying currency forward, to ensure that they will have a predictable return on their investment. (I do not, incidentally, share the moralistic view that currency speculation is not legitimate. If governments are foolish enough to force their currencies to live an economic lie, then speculation is often the only mechanism that can bring them to their senses. In the markets, there is no taxation without representation.)

The trick, of course, is in achieving international consensus. No individual government or trading center dares impose a unilateral tax on its own share of the constant global flow. Any that did would instantly find the business being shifted to more hospitable climes. But an agreement by the dominant G-7 economies, backed up by the OECD, requiring their own banks and trading houses to comply, should suffice to police such a relatively painless system of exploiting this global resource.

This would establish a most remarkable principle, and an essential precedent, that the world as a whole has an interest in using this new transnational flow of wealth that is the lifeblood of the global economy. We are only beginning to comprehend the size and the power of this new phenomenon and so far lack many of the theoretical tools that might enable us to analyze it.

The International Economy in the Cold War
What we do already know, when we start looking beyond national financial statistics and exploring this brave new world of the global market, suggests that all of us, individuals, corporations, and governments, are in the presence of something much larger than the sum of its parts. Between 1981 and 1991, total world trade increased by 48 percent. Much of Europe's renewed self-confidence stemmed from the fact that trade among the four largest EC economies, Germany, France, Britain, and Italy, increased by almost 60 percent. But as Kenneth Courtis of Deutsche Bank in Tokyo has pointed out

> for all of Asia, it doubled. For Singapore, Hong Kong, South Korea and Taiwan, trade today [in 1992] is four times larger than it was just ten years ago. In this expansion of trade, Japan and North America have played opposite, but complementary, roles. Through direct investment, and its own finely targeted trade expansion, Japan has supplied the region with capital and intermediate goods. . . . In contrast, the U.S. has played the role of market for Asia.[3]

The rest of the world also played the role of market for the United States, when the components that make up the American economy are considered as a whole. Once again, one has to look beyond the national trading figures and focus on the far more illuminating statistics of the global economy. In 1988, total U.S. exports of manufactured goods amounted to just over $250 billion. But sales abroad by majority-owned U.S. subsidiaries in manufacturing came to $465 billion. And sales abroad by U.S. subsidiaries in distribution came to $180 billion. This produced a grand sum of $895 billion in total overseas sales that could be attributed to the U.S. economy.

Consider Japan by way of contrast. In exporting $230 billion of manufactured goods, it was somewhat behind America. But its sales abroad by Japanese subsidiaries in distribution were a striking $380 billion, and its sales abroad by Japanese subsidiaries in manufacturing amounted to only $140 billion, for a total overseas sales performance of $750 billion.[4] The important feature of these figures is not that Japan's performance was significantly behind America's, but that the fundamental organization of each country's penetration of foreign markets was so different. The Americans focused on manufacturing abroad, the Japanese on sales through distribution. The global economy is growing so fast that there are all sorts of ways to exploit it.

A historic change has come about with extraordinary speed. In 1972, the value of U.S. direct investment stock abroad was six times higher than that held by foreigners in America. Within sixteen years, the proportions were even. An American dominance in foreign ownership had become a parity. Twenty percent of the assets of all U.S. banks were owned by foreigners by 1988, half by Japan. The two leading American scholars in the field concluded in a special survey for the Institute of International Economics that "Japan has also been the principal exporter of portfolio capital in the 1980s—in effect the principal source of financing for the U.S. current account deficit."[5] Britain remained the largest single investor in America, with 31 percent of all foreign holdings there in 1988, followed by Japan with 16.2 percent, the Netherlands with 14.9 percent, and Canada

[3]Kenneth S. Courtis, *Asia in the 1990s: Movement and Contradictions*, Deutsche Bank Group, Global Strategy Research Papers, 1992.

[4]Dennis J. Encarnation, *Rivals beyond Trade: America vs. Japan in Global Competition* (Ithaca, NY: Cornell University Press, 1992), p. 22.

[5]Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the US* (Washington, DC: Institute for International Economics, 1989), pp. 18, 30–31.

with 8.3 percent. But as well as buying companies and stock and real estate, foreigners bought T-bonds, the U.S. Treasury securities that directly financed the U.S. budget deficit. In 1990, the U.S. Treasury paid out $248 billion in interest on this public debt, of which $38 billion, almost 15 percent, went to foreign bondholders.[6] The Japanese bought more treasury bonds than the rest of the outside world's investors combined. And it cost them heavily. The decline of the dollar and the parallel rise in the yen after the Plaza Accords of 1985 meant that the dollar assets held by Japanese investors were mechanisms for losing money on the exchange rates. Having paid over 200 yen for each dollar in 1985, Japanese investors found that a dollar could be bought for 140 yen by April 1987, which represented a loss of a third on their original investment.[7]

Financing America's Victory

A curious equation now emerges. If, as Ronald Reagan's admirers insist, America prevailed in the Cold War because of his administration's rearmament policies, and if that rearmament was financed by budget deficits and those deficits were sustained by foreign investors who lost money in doing so, then foreigners financed the American success.

The 1980s saw a triumphant return on America's altruism of the immediate postwar period, when the United States financed the recovery of the European nations and Japan, who were to be its economic competitors. But to put the argument in this way is to miss the essential accomplishment of the Cold War. The objective may have been to contain the Soviet Union. The achievement was to build a global economy that was greater than the sum of its American, European, and Japanese parts.

[6] "Budget of the U.S. Government, Fiscal Year 1990," section 5, p. 171. See also, Charles L. Schultze, *Memos to the President: A Guide through Macroeconomics for the Busy Policymaker* (Washington, DC: Brookings Institute, 1992), p. 105.

[7] C. Fred Bergsten and William R. Cline, *The U.S.-Japan Economic Problem* (Washington, DC: Institute for International Economics, 1985), pp. 41–52. This study is the source of the classic contention that "the rise in the U.S.-Japanese trade deficit from 1980 to 1984 can be fully explained by changes in the exchange rate and rates of economic growth." See also, Michael Moffitt, "Reaganomics and the Decline of U.S. Hegemony," *World Policy Journal* 4 (Fall 1987), p. 571.

The degree to which the other Western economies underwrote the American deficits during the arms race of the 1980s suggests that the key principle of common financial commitment to meet a common strategic goal is already understood by the global markets and has already been seen to work.

Reagan's rearmament was an investment in national security. It was also the test of his private conviction that America could afford an arms race, while the Soviet Union could not. The Soviet Union would either have to renounce the arms race or bankrupt itself into collapse in the vain effort to keep up. "I think there is every indication and every reason to believe that the Soviet Union cannot increase its production of arms," Reagan explained to the editorial board of the *Washington Post* during his 1980 election campaign. "Right now, we are hearing of strikes and labor disputes because people aren't getting enough to eat. They've diverted so much to military [spending] that they can't provide for the consumer needs. So far as an arms race is concerned, there's one going on right now, but there's only one side racing."[8] For President Reagan, the arms-fueled boom was an unalloyed delight, an endorsement of the tax-cutting policies and unrestrained capitalism he had promised. "In Europe, they are calling it the American miracle. Day by day we are shattering accepted notions of what is possible," the president enthused in his State of the Union address in January 1985.[9]

Abroad, while sharing in his joy, Reagan's sympathizers took a rather less simplistic view of his success. One of the more astute perceptions was delivered to Britain's House of Lords by Harold Macmillan, the former prime minister now elevated to the peerage as the Earl of Stockton, who discussed the Reagan miracle in his maiden speech:

> I rejoice at what Reagan is doing. He has

[8] The *Washington Post* editorial board meeting with candidate Reagan took place on June 18, 1980. The text was published in Lou Cannon, *President Reagan: The Role of a Lifetime* (New York: S&S Trade, 1991), p. 297.

[9] *Papers of the Presidency, 1985*, State of the Union Address, February 6, 1985.

broken all the rules, and all the economists are furious. Five million new jobs, and at the same time, inflation has been kept quite low. It is a miracle; the House should know how it has been done. I think I know how it has been done; it is because they have had the sense to make other people pay for it. In a word, Reagan, to reverse Keynes, has called in the resources of the old world in order to finance the expansion of the new.[10]

Reagan's strategy to crack the Soviet economy by forcing it into an arms race it could not sustain, worked. But it worked at a dreadful cost. The American economy could not afford it either. The Reagan rearmament program, financed by budget deficits, which were in turn financed by borrowing foreign capital, foreshadowed the rather crude development that was to take place in 1990–91, when America financed its military venture against Iraq in the Persian Gulf by getting its cash-rich allies in Germany, Japan, and Saudi Arabia to pay for it. The real lesson of the U.S. economic dislocations of the 1980s was clearly understood by those with practical responsibilities for the stewardship of the U.S. currency.

"The stability of our capital and money markets is now dependent as never before on the willingness of foreigners to continue to place growing amounts of money in our markets," America's central banker, Paul Volcker of the Federal Reserve, explained to Congress in 1985. "We are in a real sense living on borrowed money and time."[11]

Thus, one of the more illuminating coincidences of the modern age is that the year that brought Gorbachev to power also saw the public humbling of the American economy. The admission that it could no longer afford to lead the global economy and had to share the responsibility for its stewardship with Europe and Japan should have been a cause for great pride, for the real achievement of the American system in the four decades of the Cold War was not the eclipse of its Soviet rival but the creation of something far more positive—the building of the West.

The new economic power of Japan and the European Community was on display as U.S. treasury secretary James Baker met with Japanese and European finance ministers at the Plaza Hotel in September 1985. That meeting established the principle and the strategy of a concerted approach to the global economy and its currencies; the meeting produced an agreement for a managed fall in the value of the U.S. dollar, with the West's central banks acting as one.

It was a moment of supreme effort for America—to accelerate the arms race to a pace that the Soviet Union could not match. The Soviet economy broke, but the U.S. economy bent under the strain. The support of other G-7 nations was summoned to help sustain America's supreme strategic effort, just as their support is being rallied now to rescue the hopes for democratic stability in Russia.

In spurring the development of the global economy, the Cold War also provided the potential financial wherewithal to police its messy aftermath—at no cost to any of the nations that individually cannot pay for it.

So think back to that lovely image of the earth as photographed from space and try to imagine, superimposed upon the globe, the constant surging flows of trade and capital that spin ceaselessly around it. Think of the dollars as red, the yen as blue, the deutsche marks as white, the pound sterling as gold, and so on. Consider the multihued and swirling patterns of energy they imply, the lifeblood of a global system that is the only measure of the wealth we will need to face the challenges that confront us. To ponder the awesome elegance and power of these financial flows is to understand that we have already produced the global resource we need. ●

[10] *Hansard: Parliamentary Debates*, The House of Lords, London, November 13, 1984.
[11] "U.S. Federal Reserve, Statement of the Chairman," February 5, 1985. The text was delivered by Paul Volcker to the Joint Economic Committee of the U.S. Congress.