T7 Task Force Strengthening social cohesion

POLICY BRIEF

ESTABLISHING A GLOBAL CITIZEN FUND FROM REVENUES OF GLOBAL TAXATION

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Abstract

The recently agreed upon global minimum corporate tax will, from 2023, set a minimum tax rate of 15% on profits of large multinationals. We recommend that such a landmark progress in global taxation cooperation be accompanied by a landmark advancement in global solidarity. We urge G7 countries to devote half of the revenues they will collect from this tax (approximately $75bn) to the establishment of a Global Citizen Fund. The main purpose of such a Fund would be to pay out a universal global basic income equal to the international poverty line of $1.90 daily (adjusted for Purchasing Power Parity). This sum would enable to take approximately 260million poor people worldwide out of poverty (about a third of the people estimated to fall under the poverty line by the World Bank). Such a transfer could be progressively extended to become a global universal basic income. This policy would provide an automatic safety net against the occurrence of major economic shocks and natural hazards, as well as empowering the least advantaged individuals to fully realise their capacities. The now widespread tool of electronic money could be used as a means to provide cash transfers. The Global Citizen Income would be a step forward toward the creation of global social cohesion, and would be the most natural way to tackle the global crises that are looming. It would also be a way for global institutions like the G7 to reclaim trust and legitimacy.
Challenge

The spread of the COVID-19 pandemic has made the existence of safety nets as important as ever. The World Bank (2021) estimates that more than 100 million people have become poor as an effect of the pandemic, in addition to the 600 million already in poverty, thus reverting a trend of decreasing poverty (see Figure 1). While high-income countries can finance safety nets through public debt, middle and low-income countries lack the “fiscal space” to do so. Global crises of different nature – epidemic, economic, and environmental – can be expected to become even more serious in the future. It is then essential that safety nets are integrated on a global scale.

Figure 1: The impact of COVID-19 on global extreme poverty

This endeavour can be justified on ethical grounds, but also to safeguard national interests, because of the high social and economic interconnectedness of countries around the world. Failure to increase the preparedness and resilience of countries to global crises will also exacerbate the growing discontent with societal leaders. According to the Edelman Trust Barometer (2021), covering 27 countries worldwide, two thirds of respondents express distrust in society leaders, with government leaders ranking second-to-bottom, preceded only by “the very wealthy” at the bottom of the scale. According to World Value Survey data, trust in national governments is decreasing (see Figure 2), and international institutions such as the World Bank and the IMF are the least trusted among political institutions. Even if we are not aware of surveys inquiring about trust in the G7, it is not far-fetched to think that trust in the G7 is on a par with trust in the World Bank and the IMF, i.e. very low.
Figure 2: Evolution of trust in governments (World Value Survey).

**Note:** The graph shows the (population-unweighted) average of the percentage of respondents who answered “A great deal” or “Quite a lot” when asked how much confidence they have in the government in their nation’s capital, in the 30 countries included in the three last waves of the World Value Survey (WVS time-series, 1981-2020).

## Proposals

As of 4 November 2021, 137 countries and jurisdictions - accounting for over 90% of the global economy - signed an accord aimed at ensuring that large multinational companies pay a minimum tax rate of 15%.\(^1\) The Global Minimum Corporate Tax (GMCT) would apply to overseas profits of multinational firms with more than 750 million euros in sales globally. The accord calls for national governments to “top up” their corporate taxes to the 15% minimum, whenever a company is taxed at a lower rate in another country. This should eliminate the advantage of shifting profits to tax havens and halt the “race-to-the-bottom” in corporate taxation that has taken place since the 1980s. A second part of the accord allow countries where revenues are earned to tax 25% of the largest multinationals' so-called excess profit, i.e., profit in excess of 10% of revenue. New rules should come into effect at global level in 2023. The OECD forecasts that such a deal will yield $150 billion per year in increased taxation, most of which will accrue to G7 countries.

Such a deal has been hailed as a historic step forward in global tax cooperation, although many have expressed concerns that a 15% tax rate is way too low to be considered fair and effective (e.g. Tucker et al., 2021). While on the one hand such a deal reduces opportunities for multinational companies to dodge taxation, on the other hand the beneficiaries of such an accord are, as things stand, the richest countries in the world, which are home to multinational companies. We propose that such a landmark progress in
global taxation be accompanied by a landmark advancement in global solidarity. We call on G7 countries to devote half of the additional tax revenues stemming from the GMCT to a Global Citizen Fund, administered by a newly created agency, possibly under the supervision of the United Nations.

The main goal of the Global Citizen Fund is to set the foundations for a global safety net that guarantees a minimum level of wellbeing to every person in the world, and makes sure that none is left behind, especially in times of crisis such as the COVID-19 pandemic. More concretely, we propose that the Global Citizen Fund is allocated to the payment of a Global Citizen Income worldwide, which should be first directed to lift the poorest of the poor out of poverty, and gradually be extended to cover the whole world population. A Citizen Income (also often called universal basic income) is a periodic cash payment unconditionally delivered to all, on an individual basis, without means-test or work requirement (Paine, 2000; Meade, 1995; van Parijs, 1997; Straubhaar, 2018). A Global Citizen Income is a Citizen Income extended to all citizens of the world (Van Parijs and Vanderborght, 2015). A Citizen Income is a way to fulfil the widely shared idea that no one should be left without the means to live a dignified life, acknowledging that every human has an entitlement to receive a dividend from the exploitation of natural resources (Steiner 1994) and inherited infrastructures. It can also be justified as compensation from high carbon-emitting countries to low-carbon emitters. In addition to philosophical arguments, there are also economic, political and social arguments, which are reviewed in Grimalda et al. (2020).

![Figure 3: The Figure plots the relationship between the share of world Gross National Income (GNI) required to pay a PPP-$1.90 cash transfer (y-axis) and the shares of the world population that would be covered by the transfer (x-axis). Covering the whole world population would require approximately 3.1% of world GNI. LIC, Lower MIC and Upper MIC denote population shares for Low-Income Countries (LIC), Lower Middle-income Countries (MIC) and Upper Middle-Income Countries. Author elaboration based on data from World Bank national accounts (https://data.worldbank.org/)](image-url)
Figure 3 reports the financial resources that would be needed (expressed as share of world Gross National Income) to hand out a daily sum of $1.90 (adjusted for Purchasing-Power-Parity (PPP)) in relation to the share of the world population. A sum of 75bn is equivalent to approximately 0.1% of world GNI and would enable to pay a PPP-$1.90 to approximately 260million poor people worldwide, equivalent to 3.5% of the world population. Since the World Bank estimates that around 750million people fall below the poverty threshold of PPP-$1.90 in 2021 (figure 1), dedicating half of the revenues from the GMCT to the Global Citizen Fund would enable about a third of the world poor to be brought out of poverty (omitting administrative and implementation costs).

In Grimalda et al. (2021), the effectiveness of cash transfers in combating poverty is discussed, along with the outline of a roadmap for the further enlargement of a Global Citizen Income worldwide. Cash transfers are made possible even in low-income countries thanks to the diffusion of mobile money (Sury and Jack, 2016). Beneficial effects of cash transfers have been found on a broad variety of outcomes, such as monetary poverty, education, health, nutrition, savings, employment and empowerment (Bastagli et al., 2016). The fear that money transferred to the poor will end up in “temptation goods”, e.g. alcohol and tobacco (Banerjee & Mullainathan, 2010), – appears unfounded (Evans and Popova, 2014). On the contrary, universal cash transfer recipients seem eager to use the transfers on beneficial activities, such as paying off their debts.

Cash transfers have been used extensively to combat the COVID-19 crisis. In 2020, 1.2 billion individuals received cash transfers as a form of aid, out of 1.8 billion individuals benefiting from some forms of aid (Gentilini et al, 2020). This proves the suitability of this instrument in crisis situations (Blofield et al., 2021, Blofield and Filgueira, 2020). Grimalda et al. (2021) also discuss other lines of funding to further increase the coverage of the Global Citizen Income and increase the amount transferred to PPP-$3.20. The Global Citizen Fund may use resources from international aid, especially if countries comply with the UN target of allocating 0.70% of GNI to Official Development Assistance. Other taxes on multinational corporations, such as a 0.02% tax on the stock value of large corporations (Saez and Zucman, 2021), may be levied (yielding about $180bn in revenues). Tax havens may prove to be an attractive prospect for individuals willing to dodge taxation even after the GMTC. Although figures are highly speculative, around $200bn are estimated to be lost on income tax on individuals (Zucman, 2017; Henry, 2016).

Additional sources of global taxation may come from a wealth tax (Sachs et al., 2018; Landais et al., 2020). A progressive wealth tax taxing the millionaires at 2% per year and billionaires at 3% would have raised $2.65 trillion, equivalent to 3.3% of world GDP in 2017. A global system of carbon taxation could raise around $1.6tn per year between 2020 and 2030, i.e., around 1.9% of current world GDP (Jacob et al., 2016). Taxing financial transactions worldwide (the so-called Tobin Tax), amounting to no less than $12,000tn, at the rate of 0.1%, would generate around 7% of the world GDP as revenue – even assuming that half of the tax base would be lost, due to either avoidance or evasion.

This set of taxes would be progressive in character, as they would weigh disproportionately on the richest, and would yield an overall financial capacity of around 12% of world GNI. A fully universal Global Citizen
Income of PPP-$3.2 paid to everyone in the world would require $4.25 trillion, equivalent to 5.22% of world GNI. The fiscal capacity collected in excess of this target could then be used for the provision of other global public goods, to further strengthen social protection on a global basis (Cichon and Lanz, 2022), to provide investment for mitigation and adaptation to climate change, to increase preparedness for future pandemics, and to support the Sustainable Development Goals.

Implementations

The proposal for the GMCT was developed in the context of the G20 request to the OECD “Inclusive Framework on Base Erosion and Profit Shifting” to device strategies to avoid multinational companies dodging taxation. It was first formally agreed upon at a meeting of the G7 Ministry of Finances held in London in April 2021. It is then entirely appropriate for the G7 to decide on the allocation of such revenues, relative to the share accruing to the G7 countries. We advocate the G7 to take the lead in working out the necessary legislative, political and financial means to establish a Global Citizen Fund under the aegis of a newly created Convention for Global Citizenship, in collaboration with the UN. This Convention should be open to all countries willing to contribute, and should be charged with the task of managing the Global Citizen Fund and setting up the pay-outs in different countries. This Convention could be similar in character to the existing COVAX facility providing access to vaccines to LMIC, and may be open to philanthropic donations.

We believe that present proposal aligns with the goals 3,4 and 5 set out by the German Presidency for the T7, that is, enhanced preparedness for healthy lives, sustainable investments in a better future, stronger together.
Endnotes

POLICY BRIEF - Establishing a global social protection fund from revenues of global taxation

References


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Gianluca Grimalda, Ph.D., is senior researcher at the Kiel Institute for the World Economy. He has been co-chair of the T20 engagement group for the G20 in the area of social cohesion, coordinating lead author for the International Panel on Social Progress, and member of the OECD Trustlab project. He draws on his expertise in behavioral economics to study topics relevant to social cohesion, such as integration of immigrants, international cooperation, tolerance of inequality.
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