

Abstract

The purpose of this paper, by introducing the adjustment expense of global income transfers across N countries, is to produce an explicit rule for the planner country regarding income transfers, and to investigate the effects of income transfers on each country's welfare. The findings are: (i) when country i has a productive advantage in producing public goods, country i becomes an income receiver; (ii) specifying the particular level of the adjustment expense for global income transfers, the planner can decide the values of income transfers for all countries; (iii) even though any country can become a planner of income transfers, all countries get the same utility level, while the low adjustment expense under a particular planner country leads to a Pareto-improving outcome; (iv) all conclusions are derived based on well-known information regarding the cost of producing public goods and income levels for all countries.