

INTERNATIONAL JUSTICE AND AID. DO WE NEED SOME SCHEME OF REDISTRIBUTION OF INCOME AT THE WORLD LEVEL ALONG THE LINES OF WHAT MOST COUNTRIES HAVE AT THE NATIONAL LEVEL?

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We live in a world of sovereign states. Among these sovereign states, justice is recognized as a guiding principle for governing their relations. But charity is not. All nations today have inalienable and equal rights. But states are not expected to be charitable to one another. And yet, official development aid is necessarily intermediated and implemented by the states. This is the deep paradox of international aid. We may see growing manifestations of international solidarity and private generosity. Nevertheless, between nations, the act of giving – i.e. transferring resources with purely altruistic motives and no conditions or expectation of any counterparties – remains occasional and discretionary even if there are international institutions specifically dedicated to this aim.

Today, we hear frequent references to a new Marshall Plan. But the Marshall Plan was a truly exceptional endeavour, with no historical precedent since nation states emerged in their current form and no comparable follow up since: it remains the only experience of a quasi ‘pure’ unilateral gift, on a large scale, between sovereign nations. No action taken ever since has come close to matching the breadth and scope of that vision.

Hence the question in the title of our session: do we need a different system? Should we try and achieve between nations the same kind of natural solidarity which, most of the time, exists between people sharing the same citizenship? Most modern states have internal income redistribution schemes, the scope and nature of which differ widely across the world. Those redistribution schemes consist in taxes and transfers operated by the State according to preset rules and parameters. They aim, in proportions which also differ between countries, to reduce poverty and/or inequality between citizens.

Do we need such schemes at the international level and are they feasible? Both from a moral and instrumental point of view, I would answer, yes certainly. But, when they exist, those schemes are grounded on political and social infrastructures which exist at the level of the nation-state but not at the world level. One the major achievements of the Millennium Development Goals has been to by pass this difficulty by making poverty reduction recognized as a universal value, and objective. The same status has not been achieved, however, for the reduction of income inequality.

At this stage, we have the Millennium Development Goals (MDGs). How do they contribute to achieving justice between people? Can they be met under the current system? And should we go beyond? These are the three questions I would like to touch briefly upon.

The Millennium Development Goals and Justice

As we all know, at the core of the MDGs is a commitment to halve the number of people living in extreme poverty by 2015 (as compared to 2000). The goals also refer to specific achievements in human development, especially in education and health. Generally associated with the MDGs is a target of doubling the volume of aid (not universally accepted by all countries).

So, what the international community is seeking to achieve is a reduction in poverty. Not a reduction in inequality. These are two very different approaches. Poverty refers to an absolute level of income whereas inequality is judged – and measured – by looking at the relative positions of individuals. So, we can have both an increase in inequality and a reduction in poverty. This is exactly what has happened for most of the recent period. While world population has more than doubled in the last four decades, the number of people living in extreme poverty – i.e. less than 1\$/day – has dramatically decreased. But, as I shall expand upon later, inequality has not followed the same trend.

Is poverty reduction an adequate translation of our moral aspiration to justice for all people? It is an approach, which looks only to the poorest and most disadvantaged. This, of course, is very reminiscent of the Rawlsian definition of justice. We could see the MDGs as the product of a collective deliberation of mankind behind the famous ‘veil of ignorance’ bypassing, in a thought experiment, the segmentation of the world into sovereign states. While, in a Rawlsian perspective, every individual is guaranteed a full set of basic liberties, there is no identified value attached to the specific welfare of each member of the human community. Thus, this principle of justice is

indifferent to the level of inequality as long as it does not impair the situation of the poorest of all.

This may appear, to some of us, as a minimalist approach to justice. In addition, even from the point of view of justice defined as such, the MDGs do not appear overly ambitious. The poverty threshold has been set at a very low level: less than 1\$ a day. True, there are still 1.2 billion people living in such extreme poverty, and reducing that number by half would be no small achievement. But nearly half of the world population still live right now with less than 2\$ a day and it is not clear that meeting the MDGs will significantly reduce that number (as an immediate result will be to increase the number of those living between 1 and 2\$ a day).

Can the Millennium Development Goals Be Achieved Under the Current System?

As a result of the MDGs, intense mobilization has taken place and strong financial commitments have been made. But one needs not be cynical to wonder about the implementation. To quote from the introductory paper to this Session, 'there are now well grounded doubts about the possibility of really implementing them within the time envisaged'. Beyond the obviously slow growth in actual aid flows, there are two reasons to be doubtful: increased domestic pressures in donor countries; and failures in the current international aid system.

Looking at the internal dynamics in donor countries, two conflicting forces seem at work. On the one hand, altruism is on the rise as evidenced both by surveys and growth in voluntary contributions. This altruism is clearly fuelled by a growing sense of proximity with the poor and disadvantaged, brought by globalization and instant communications. On the other hand, globalization also brings strong adjustment pressures and increased economic insecurity, which are not conducive to helping people and countries often perceived as dangerous competitors. As a result, altruism shows itself in occasional outbursts of generosity, but it remains difficult to transform those positive forces into continuous and stable financial transfers to the poorest countries. In such an environment, fiscal constraints may prove very detrimental to development aid.

I had a chance to get a close look at the implementation process while working with a group of personalities on a report on international contributions for development commissioned by President Chirac. Doing so, we were able to identify some fundamental – some would say systemic – failures to which it can only be remedied through considerable changes in the financial mechanisms.

The current aid system is organized through a network of bilateral and multilateral relations between recipient and donor countries. The procedures for deciding and allocating aid flows are based on permanent negotiations between donors whose strategies change according to their priorities and their foreign policy objectives, and whose budgets are decided, for the most part, on an annual basis. Such a process is bound to produce non optimal results: insufficient resources because each donor has built-in incentives to finance its own priorities first, and then to free ride on other countries contributions; forms of aid which are inadequate (only one third of disbursements currently go to fighting poverty; grants are insufficient; less than 50% of aid actually translates into cash transfers to developing countries); and finally excessive volatility and unpredictability in aid flows. This unpredictability considerably reduces aid effectiveness. It penalizes those programs – aimed at human development and the fight against poverty – most in need of long-term stability and continuity because they are mainly based on recurrent expenditures in basic social services.

We concluded that one crucial element is currently missing: a resource that is both totally concessional and predictable. Even small amounts of such a resource, at the start, would make a difference by increasing the return on other aid flows and creating an environment, which would increase their overall efficiency. In order to produce such a resource, new multilateral (and more automatic) financing mechanisms are necessary.

We suggested that some form of international taxation would deliver the precise kind of resource needed to finance human development, one that is both totally predictable and concessional. This could be done without changes to the current international order. Contrary to widespread perception, no new institutional arrangement or international organization would be necessary. Naturally, an international tax could only be the outcome of an act of cooperation between sovereign countries. It can be defined as a set of identical or convergent national tax mechanisms, implemented jointly by these countries within a common, agreed framework, encompassing the utilization of the funds levied by each of these states.

Finally, we underlined the economic rationale behind such taxes. For instance, corrective taxes, such as environmental taxes created at the world level, would raise revenues without creating any new economic distortions, and actually eliminating some. Also, taxes levied, at a very low rate, on internationally mobile tax bases would be less distortionary than additions to existing national taxes, whose rates are already much higher. Thus, such international taxes could bring net benefits in terms of economic efficiency.

So, our conclusions were clear as regards to the question asked for this roundtable. Yes, in order to fight poverty and reach the MDGs we do need some redistribution schemes which, although not exactly along the lines of the ones implemented at the national level, would reproduce some of their basic elements, such as a permanent structure of tax and transfers.

Beyond the MDGs: Reducing Inequality in a Globalized World

In most, if not all, countries where income redistribution schemes exist, they go beyond poverty reduction and aim, to some extent, at modifying income distribution and correct inequalities. Could and should a global system be designed with such a purpose?

Political realism would impose a negative answer. But, in this case, realism alone cannot dictate our reflexion. We cannot ignore that income inequality is a salient feature of our world and may stay so in the future. During the 19th and most of the 20th century, the expansion of global capitalism has brought both an unprecedented prosperity and a growing dispersion in the distribution of income. Over the last three decades, this trend may have partially reversed, depending on the perspective one chooses to adopt. As measured by synthetic indicators of worldwide income distribution (such as so called gini coefficients), global inequality has been stable over the last three decades – or has even decreased slightly. A different measure, such as the gap between the highest and lowest levels of income, would on the contrary, show a significant increase.

This calls for a fundamental discussion from the point of view of economic efficiency, political philosophy as well as on pure moral grounds. As we shall see, from all those viewpoints, establishing a worldwide redistribution scheme might seem, at first sight, as a highly debatable proposition. But this does not mean that nations are powerless and that nothing can be done to fight inequality in our present world.

The economic case against seeking to reduce global inequalities by redistributing income is apparently straightforward. It starts with the fact that global income distribution is mainly driven by inequality between nations rather than inequality within nations. Put differently, global inequality in income between individual persons is essentially a result of divergence in economic growth rates between nations. As a consequence, the best contribution one can bring to income equality in the world is to help and foster growth in less advanced countries, so that they can catch up with the richest ones. Indeed, most of the recent reduction in aggregate measures of glob-

al inequality (and poverty) comes from the strong growth registered by big emerging economies, such as China and India. Many policies can be designed to achieve stronger growth, including, for the richest nations, to open their economies to developing countries exports. In that perspective, protectionism is the least charitable of all policies. Redistributing income between countries can only bring a marginal – and not necessarily positive – contribution. This view has been forcefully expressed by Robert Lucas: ‘Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution. In this very minute, a child is being born to an American family and another child, equally valued by God, is being born to a family in India. The resources of all kinds that will be at the disposal of this new American will be on the order of 15 times the resources available to his Indian brother. This seems to us a terrible wrong, justifying direct corrective action, and perhaps some actions of this kind can and should be taken. But of the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production’.

A second interrogation relates to the political philosophy of income redistribution. Income redistribution is the outcome of a political process, which, in most countries, is based on democratic decision making mechanisms. We know from observation that countries differ widely as to their preferences for equality or tolerance for income inequality. Furthermore, devising a redistribution scheme may involve delicate trade-off between economic efficiency and social equity considerations. There is no worldwide democratic process to decide on those trade-offs and reconcile those differences in order to determine an appropriate level of international income redistribution. This is a major difference with poverty reduction. As mentioned above, we don’t need to give a value to each individual’s welfare to unanimously agree on poverty reduction as a priority. Whereas such a valuation (explicit or implicit) is inescapable to decide on a level of acceptable income inequality. And such a valuation is to day simply impossible outside the realm of the nation-state. So the design and implementation of redistributive schemes can only be left to individual nations.

Finally, thinking about equality, one cannot avoid Amartya Sen’s famous question: equality of what? There are many possible dimensions to

equality (or, to use, Sen's words, many spaces into which equality can be assessed). We can think of equality in incomes, in liberties, in opportunities and, finally, of equality in 'capabilities', defined by Sen as our capability to 'achieve valuable functionings that make up our lives, and more generally our freedom to promote objectives we have reasons to value'. Arguably, equality in some of those spaces is best achieved through a combination of actions and processes involving institutional, social, and political evolutions. This should not be seen as casting a doubt on the basis for and necessity of charity. But it may raise legitimate questions as to the most appropriate forms and instruments. At the very least, it shows that income redistribution is but one condition, amongst others, of equality appreciated in all its dimensions. It also points to the fact that instruments and schemes internally used in individual countries might not always be the most adequate to address specific dimensions of inequality.

I have felt compelled to list those arguments against worldwide redistribution schemes, because they are currently used and based on careful consideration of facts and rigorous reasoning. On the other hand, there are strong, may be less rigorous, reasons to judge as unacceptable the current level of inequality and deeply insufficient the financial resources devoted to reduce it. A broader approach and agenda for fighting inequalities in the pursuit of justice would include the following:

First, extend our definition of justice beyond the pure 'Rawlsian' criteria. Predominant is the fact that, in a significant proportion, inequality between individuals in the world is a result of pure chance. Where you are born matters a lot when level of developments are so different between countries. While we can understand those inequalities, which stem from differences in talent and efforts, it remains ethically impossible to accept that the fate of human beings, otherwise equal in all their capacities, is nevertheless so much determined by the location and circumstances of their birth. There is a deep moral imperative for true equality in opportunities and we should, at some stage, recognize as a valid international objective that all human beings be given equal chances at birth. This may not be easy to translate into identifiable and operational criteria. People start in life with all sorts of endowments, including private wealth, family background, and access to public services. And some rigorous definition of what should be equalized would be necessary. My intuition is that this would involve much a bigger transfer of resources than what is actually contemplated. At the very least, this would lead to question the threshold currently used for the definition of poverty and give a basis for much stronger and more systematic international action.

Second, we should recognize that basic fact that poverty and equality may not always be considered as fully independent. Almost arithmetically, the evolution of poverty is a result of both the economic growth rate and changes in income dispersion. It may happen that faster growth is more than fully compensated by greater income inequality. This may be the case, to day, in some rich countries where most of income growth is concentrated in the hands of a limited number of people.

Third, we should strengthen the capacity of our societies to embrace international justice and develop collective charity. This may be a challenge in the period to come. There is a close link between social justice within countries and their ability to act for international justice. In an era of rapid change and increased economic insecurity, there is risk that the pressures of globalization would pit the poor in rich countries against the poor in poor countries. It is our moral responsibility to avoid such an outcome by strengthening our own domestic social contracts and developing strong and adapted systems of solidarity.

And fourth we should recognize that for a significant part, global income inequality is a product of insufficient international cooperation. Looking at international economic relations to day, one can easily identify those choices and arrangements, whether explicit or implicit, which do result in increased inequality. Protectionism is one. More generally, it is not clear to day that the international economic order produces the best mix of efficiency and equity. My intuition – it is no more than that – is that weaknesses in cooperation between nations result in more inequality that would spontaneously appear (as well as, may be, a loss in overall efficiency). One obvious example is tax competition. But it may be more general. As new actors, both private and public emerge in the world scene, states should cooperate more in the pursuit of common objectives. They should accept to bind themselves more for the sake of combining efficiency and justice. In the current environment, where multilateralism is receding, this might be an objective worth fighting for.