

World Public Finances and Global Income Inequality

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“There should exist among the citizens neither extreme poverty nor excessive wealth, for both are productive of great evil”
(Plato)

“A society can be Pareto optimal and still be perfectly disgusting”
(A.K. Sen)*

Poverty reduction is now the major priority of development cooperation. However, there are political and economic reasons to see inequality as a more important and urgent problem. Unfortunately, statistics are failing and confusing. At the global level inequality seems to be decreasing. Excluding the world’s most populous growth countries, China and India, inequality in the rest of the world is increasing. World Public Finances is a concept that allows for thinking of distributional justice at the global level. Ideally, with global taxes and global public goods, it could take the place of development aid. But theoretical arguments are scarce and one has to rely on political decisions.

Since the international organisations put poverty on the political agenda in the 1990s, little was heard about inequality. This is quiet amazing, since the ‘income gap’ between rich and poor countries was precisely what gave rise to the development project after the Second World War. The first UN resolutions on development do not mention poverty but do refer to the huge inequalities between the rich and the poor world¹. Poverty was first mentioned by the World Bank beginning of the 1970s, when President McNamara tried to shift the attention from inequalities between countries to the inequalities within countries. This gave rise to a first – unsuccessful – poverty agenda with a focus on people instead of countries. Equally in the 1970s, Streeten made his influential comment saying that ‘a poor country is one in which the people are poor’². A further shift from countries to people was made with the UN Declaration on Development in 1986 stating that ‘*development is a prerogative both of nations and individuals*’³.

With the new poverty agenda of the World Bank and the human development programme of the UNDP, both introduced in 1990, people, if not individuals, clearly have become the objects of development. There certainly are good reasons to welcome this shift, since development without benefits for people would be rather meaningless. But one also has to see the perfect convergence of this shift with the emergence of a neoliberal agenda that tried to weaken states and deprive them of their economic role. If countries are neither the objects nor the driving forces of development, but only have to create an ‘*enabling environment*’ and care for the extremely poor, there clearly is a new development agenda and there are good reasons to analyse all its consequences.

* Both quoted in UNDP, *Human Development Report 2005*, New York, United Nations, 2005, p. 51 & 53.

¹ United Nations, resolutions General Assembly 3362 (S-VII), 1710 (XVI), 2626 (XXV).

² Streeten, P., “How poor are the poor countries?” in Seers, D. & Joy, L. (eds.), *Development in a Divided World*, Middlesex, Penguin Books, 1971, p. 67.

³ United Nations, *Declaration on the Right to Development*, Resolution GA A/41/128, 4 December 1986.

One of these consequences is the semantic change in the concept of 'social development'. Analysing the UN Declaration on social progress of 1969⁴, one can conclude that social development was linked to the International Covenant of 1966 concerning economic, social and cultural rights and to the progressive development of a kind of welfare state with all the elements of social security that are typical for most rich countries. The closing of '*the gap in the standards of living between economically more advanced and developing countries*', the '*final elimination of all forms of inequality*' as well as the '*equitable distribution*' of income and wealth were central elements in this agenda. At the UN summit of 1995 on social development, this agenda was taking a more liberal turn. The action programme consists of three chapters: poverty eradication, employment and social integration. Social security is still mentioned, though always conditioned by concerns on fiscal balance. Inequalities are also referred to, though they do not only concern incomes. References to the International Covenant of 1966 are very selective. (Re)distribution of incomes has disappeared from the agenda. Social progress will mainly be the result of the good functioning of markets and economic growth.

An analysis of the poverty discourse confirms this liberal shift. Poverty is defined in absolute and not in relative terms. Poverty reduction is said to be a 'common interest' while 'social security' is a vested interest of particular, privileged groups of workers. The World Bank and the UNDP are explicitly against social security because it is said to be inefficient⁵. If the UNDP is today again defending social security, the World Bank confirmed its liberal philosophy and developed a social protection model exclusively based on the management of risks⁶. The redistribution of incomes is explicitly excluded from the objectives of the programme, though one admits that it could be one of its consequences.

The Poverty Reduction Strategy Papers promoted by the World Bank and the IMF, as well as the Millennium Development Goals of the United Nations confirm the liberal trend. There is no more mentioning of (re)distribution, inequalities concern all matters of social life and rarely incomes, and equality of opportunity is the most ambitious objective. There is a global consensus, even with NGOs, to give priority to poverty reduction. However, there are no major arguments to explain why poverty is more important than inequality. As I will explain below, there are reasons to believe that inequality is more threatening than poverty and can be considered to be a more urgent global problem.

Left and right converging

I can see three reasons to explain the success of this liberal shift. The first is the now dominant (neo)liberal ideology. As it was perfectly well explained in an article in *The Economist* of 2001⁷ only '*unjustified*' inequalities have to be acted upon. Some inequalities are consequences of differences in talents; others are linked to a difference in efforts. Capitalism is dynamic precisely because of these inequalities. The past decade is said to have been the most exuberant period of wealth creation in human history and inequality is said to have risen. A dynamic economy needs inequality, but acting for the truly poor is '*a much*

⁴ United Nations, *Declaration on Social Progress and Development*, Resolution GA 2542(XXIV), 11 December 1969.

⁵ PNUD, *Vaincre la pauvreté humaine*, New York, Nations Unies, p. 40, 42, 44 ; World Bank, *World Development Report 1990. Poverty*, Washington, The World Bank, p. 117.

⁶ Holzmann, R. & Jørgensen, S., *Gestion du risque social: cadre théorique de la protection sociale*, Document de travail 006 sur la protection sociale (<http://www1.worldbank.org/sp>).

⁷ Does Inequality Matter? , *The Economist*, June 16th-22nd 2001, pp. 11-22.

worthier goal than merely narrowing inequalities'. Anyhow, the rich 'have their share of troubles', but what gives them pleasure is philanthropy. Lifting people out of poverty is good for society, as it is having profitable companies. 'Squeezing the rich too much is in nobody's interest'. There is nothing new in this reasoning. According to Hayek, distributive justice is the road to serfdom⁸; it necessarily leads to the destruction of the rule of law that is coterminous with equal rules for all. Inequality is more readily borne if it is determined by impersonal (market) forces than when it is due to (political) design. The poor can be helped with a minimum of food, shelter and clothing, sufficient to preserve health and the capacity to work. Every step beyond this destroys freedom. 'A universal potlatch would make a civilized world impossible' stated Milton Friedman⁹. Poverty reduction, then, is desirable, inequality reduction is not.

The second reason is due to the impatience of development organisations, and especially NGOs. They have always been focusing on poor people, much more than the official development cooperation agencies. And even if there was considerable economic growth from 1960 to 1980, they have seen little progress for poor people, although all social indicators significantly improved during that period¹⁰. The poverty agenda of the World Bank and of the UN were welcomed and interpreted as a truly important and 'holistic' shift in development thinking.

A third reason is to be found in the emerging globalisation and the leftwing protests against it. Many social movements with a critical attitude towards globalisation consider the rising poverty as the final evidence of the negative impact of globalisation. However, if the disastrous social consequences of the structural adjustment programmes of the World Bank and the IMF can clearly be seen, the first critical assessments of them never mentioned a rise in poverty¹¹. The reasons are straightforward: there are not sufficient and reliable poverty statistics to make any meaningful statement about rising or falling poverty. Since 1990, the World Bank has made a significant effort to make worldwide poverty statistics, and even if serious doubts have arisen concerning their reliability¹², there is no alternative evidence of rising poverty. Social movements may be right in denouncing the negative consequences of globalisation on people, but there are reasons to believe – though no evidence – that especially workers and civil servants are the main victims, not the already extremely rural poor. The main victims of globalisation could be the 'middle classes' instead of the poor. From that perspective, globalisation does produce relative poverty, although it does not necessarily worsen the situation of the extremely poor. This could explain the improving poverty statistics of the World Bank. According to the latest statistics, extreme poverty has fallen from 40,14 % of the population in developing countries in 1981 to 18,09 % in 2004¹³.

⁸ Hayek, F.A., *The road to serfdom*, London, Routledge and Kegan Paul, 1976 (2nd ed. [1944]).

⁹ Friedman, M. *Capitalism and freedom*, Chicago and London, The University of Chicago Press.

¹⁰ PNUD, *Rapport mondial sur le développement humain 1990*, Paris, Economica, 1990, p. 19.

¹¹ Cornia, G.A., et al. (eds.), *Adjustment with a Human Face. Protecting the Vulnerable and promoting Growth*. A study by Unicef. New York, Oxford University Press, 1987.

¹² Reddy, S.G. and Pogge, T., *How not to count the poor*, 2002, www.socialanalys.org; these authors conclude that the World Bank underestimates poverty; on the contrary, Sala-i-Martin, X., *The World Distribution of income (estimated from individual country distributions)*, Working Paper 8933, Cambridge, 2002, fears that the World Bank overestimates poverty.

¹³ Chen, S. And Ravallion, M., *Absolute Poverty Measures for the Developing World, 1981-2004*, World Bank Policy Paper 4211, April 2007. The authors add that this decline is mainly due to China and India. In Africa, poverty fell between 1981 and 2004 from 42,26 to 41,10 %; In numbers, poverty rose from 167,53 to 298,3 million people. However, the most recent findings for China and India may worsen the statistical situation. China's economy is now said to be 40 % smaller which may lead to 300 or 400 million extra extremely poor

Whatever the reasons for the shift from inequality and (re)distribution to fighting poverty and extreme poverty, it should be clear that two totally different agendas are concerned. On the one hand, the development agenda of the 60s and 70s as designed by the United Nations and its new majority of poor countries. Development was supposed to enhance economic growth and social progress; it covered industrialisation, fair trade, social protection and (re)distribution of incomes at the national level. It was a collective project for the modernisation and emancipation of countries and societies. On the other hand, the poverty agenda of the 1990s aims to help extremely poor people and especially women have access to education and health services, in order to boost their productive capacities. Economic development is left to market forces and free trade is supposed to boost economic growth. (In)equality and (re)distribution are no longer on the agenda, since social protection is now seen as risk management, mainly to be provided by market players and the poor themselves.

The emergence of ethics

By focusing on poverty and poor people, the (neo)liberal agenda made itself acceptable and gave itself a human face. One of the problems to criticize the social agenda of neoliberalism is that the welfare state that was developed slowly from the end of the 19th century onwards, never had a solid theoretical basis. It was a political decision in the light of moral indignation for workers' conditions, the need for a productive workforce and the threat of emerging communism.

An important theoretical underpinning of social justice however can be found in the writings of J.M. Keynes. He succeeded in making economic efficiency compatible and even dependent on welfare. According to this economist, it was the lack of demand that determined the lack of employment and hence of sufficient income. In order to create growth and wealth, the consumption of poor households is more important than the abstinence of the rich. Promoting this consumption and consequently promoting growth is perfectly feasible with a better distribution of incomes. In Keynesian economics, economic growth and social welfare go hand in hand and reinforce each other.

One of the most solid theoretical bases for the welfare state was given by T.H. Marshall and his theory on social citizenship¹⁴. According to Marshall, social rights (20th century) are a third generation of rights, after civil liberties (18th century) and political rights (19th century). These social rights allow people to live the life of a civilized being according to the standards prevailing in society. They became possible in the 20th century because of a growing social consciousness in the 19th century of equality as social justice and of the conception of equal social worth, not merely equal natural rights. Citizenship is based on equality, but economic inequality undermines the political equality. Thanks to social rights it was possible to go beyond poverty reduction and to claim a universal right to real income which is not proportionate to the market value of the claimant. With social citizenship, certain goods are decommodified (public services) and individuals have a right to basic services and a guaranteed income. In that way, inequalities were certainly not eliminated, but the market was partially harnessed and it was no longer the economic status of individuals that determined their access to social services. Economic inequalities were diminished and made politically ineffective.

people (*International Comparison Programme*, 2007). This is a purely statistical exercise that shows once again the difficulty of 'counting the poor'.

¹⁴ Marshall, T.H., *Class, Citizenship and Social Development*, New York, Doubleday & Company, Inc, 1964.

This theory came about in the 1960s and has since been criticized from various parts, mainly by feminists and by Marxists. Feminists claim its incorrectness, since women in many cases did have social rights before they obtained political rights¹⁵. Marxists feel uneasy with any theory on citizenship, since it ignores class conflicts that are supposed to be the main drivers of progress. Nevertheless, faced with today's threats on social security systems and a new focus on poverty reduction, opponents of social citizenship have qualified their scepticism. However imperfect the welfare states may be, they are by far preferable to any (neo)liberal system. They do not eliminate markets, but they do hinder them to determine people's lives and livelihoods. Welfare states are perfectly compatible with Polanyi's 'embedded markets', they are a consequence of social and political decisions on where and when markets are allowed to play a role.

Amazingly, the theoretical basis for the poverty agenda is not only given by (neo)liberal philosophers like Hayek, but also by well-intentioned philosophers and economists who have been trying to give or to improve the ethical basis to the current system.

The most influential of these is certainly John Rawls. His '*Theory of Justice*'¹⁶ was written in 1971 when welfare states were still developing. His efforts were aimed at reconciling freedom and equality and he wanted to give universal access to certain '*primary goods*' like freedom, welfare and self-respect. These goods can be de-commodified because everyone needs them, independently of personal preferences. This can be achieved because all men and women are free and reasonable and placed '*under a veil of ignorance*', that is, without knowing what social position or what talents he or she will have. This explains their altruism as soon as they are placed behind that veil. They will prefer a fair and equitable solution, not knowing what their own position will be. Once this has happened, Rawls introduces a second principle. Inequalities can be accepted if and only if they benefit the most vulnerable in society and when they are a consequence of positions that are open to every one. This excludes privileges and no one can accumulate wealth at the expense of the poorest.

In this system fundamental freedoms can be guaranteed and inequalities are limited. However, this is a purely theoretical model, as Rawls himself admitted. The veil of ignorance does not exist in reality; every one is born in a given social position and is conscious about it. However attractive this theoretical model may be, it will never be realized. No wealthy man or woman will give up his or her privileges if he or she does not have to. In reality, the common interest will always have to give in to self-interest. Rawls's theory is only valid in a non-existing depoliticized neutral context. Moreover, freedom may always take precedence over distribution.

One of the main sources of inspiration of the human development thinking is Amartya Sen. Building on his research on famines – never due to lack of food but mainly to lack of entitlements – he developed a theory on equality¹⁷. Equality concerns many aspects of life – income, rights, freedom, etc. – and choosing for one often means giving in to the other. The demand for equality is difficult to realize because we are all different. According to Sen, this means we have to aim for equality for different conflicting variables. Equality is often seen as being opposed to freedom, but what is the distribution of freedom? It should also be an element of equality. Sen wants an equality of 'capabilities', that is a set of vectors of

¹⁵ Marques Pereira, B., La citoyenneté politique des femmes, *Courrier hebdomadaire CRISP*, n° 1597, 1998.

¹⁶ Rawls, J. *A theory of Justice*, Harvard University Press, 1971.

¹⁷ Sen, A.K., *Inequality re-examined*, Oxford, Clarendon Press, 1992.

functioning, reflecting a person's freedom to lead one type of life over another, the freedom to pursue well-being. Equality cannot be a matter of giving everyone the same income, since there are differences in what people can do with this income. Not all people have the same possibility to convert his or her means into individual welfare. According to Sen, poverty is not a lack of income, but a lack of capabilities. If all people have the same entitlements, education and health services, they have the freedom to lead the life they want.

This very attractive way of thinking allows reconciling different approaches that had always been seen as opposed to each other, like positive and negative rights of political and social citizenship. However, in '*Development as Freedom*'¹⁸ the limits of his thinking become apparent. Poverty, basic needs, political oppression, environment, gender discrimination can only be defeated by free individual actors. But their freedom is limited by political, economic and social phenomena, which means that individual freedom has to become a social commitment. In this way, freedom becomes a means and an objective of development. It is not static but a process that allows free agency and equal opportunities. In order to monitor a development process, one has to look at how the freedom of people is progressing. Once again, this theoretical thinking seems to forget the reality of free markets with their inherent power relations. Of course, democracy and freedom are desirable objectives, but how to realise them when capital movements can curtail any social choice? When international financial organisations can cut off financial flows? A lack of democracy and freedom are not necessarily and exclusively a lack of political will or social commitment.

What Rawls's and Sen's ethical approaches have in common are the limits to equality that are inherent in their theoretical thinking. Equality may be a desirable primary good or a necessary element of individual freedom, but they will only be realised as far as markets allow them to be realised. And markets are not impersonal phenomena but the result of powerful human agency. Consequently, there is a serious risk that they will never go beyond a minimal poverty reduction. Their fundamental liberal values cannot offer any solution to what is in fact a political problem.

Philippe Van Parijs developed a more progressive approach, away from liberalism¹⁹. In his search for equality, his objective is not to reconcile it with freedom, but to give every one as much real and not only formal freedom. According to Van Parijs, freedom is not only the possibility to do something but also the power to do it. Equality of opportunity is meaningless in his eyes if this does not allow for altruism. Legacies, donations and charities distort the matrix of equal opportunities, but by eliminating them, the only remaining motive for human agency is self-interest. This brings Van Parijs to give everyone, without any conditions, a certain minimal living standard in order to obtain real freedom. This living standard is best converted into a universal allowance or basic income. The dignity of the poor makes it necessary to deprive the rich of their charitable efforts.

Again, this very attractive theory can be problematic, since a basic income does not eliminate the possibility of growing inequalities. Even liberals do not oppose such an approach, as can be seen in Hayek's work. In fact, basic income theories perfectly fit left and rightwing policies, as witnessed by Eduardo Suplicy, a Brazilian member of the leftwing Partido do

¹⁸ Sen, A.K., *Development as Freedom*, New York, Alfred A. Knopf, 1999. *Development as Freedom*, New York, Alfred A. Knopf, 1999.

¹⁹ Van Parijs, P., *Qu'est-ce qu'une société juste? Introduction à la pratique de la philosophie politique*, Paris, Seuil, 1991.

Trabalhadores (PT) and a long-time supporter of a basic income²⁰. He also perfectly agrees with the liberal idea of a negative income tax, also promoted by Milton Friedman. In fact, a basic income is the perfect solution for social protection in times of growing labour flexibility. Companies can hire and fire people as long and as much as they want, their workers are always sure to receive a guaranteed basic income. Beyond this basic income, there is no limit to the growing inequalities.

Today, new theoretical approaches are being developed as ‘global ethics’. They mainly and rightly point to the necessity of organising some kind of social protection at the global level, but they have problems in going beyond the poverty eradication. This can indeed be ethically founded, whereas anti-inequality policies will always be the result of political decisions. The fight against poverty is an ethical imperative, according to the UN. And the members of the G8, meeting in Gleneagles or Rostock, as well as the participants of the World Economic Forum in Davos fully agree. It should not surprise us that faced with a significant accumulation of wealth of the last decade, they are the first to defend an ‘ethical globalisation’. These ethics perfectly fit with their discourse on the end of ideologies, the efforts to depoliticize social relationships and to dismantle social rights.

The (re)emergence of an equality agenda

It would be wrong to state that inequality has completely disappeared from the current political discourse.

In Latin America, the world’s most unequal continent, even when poverty is declining, inequality can be rising. The concept has always played an important role in development thinking and even recent World Bank documents on Latin America²¹ recognize its major role in producing poverty.

In recent years, a number of researchers and international organisations are again looking at inequality, even if they do not always link political conclusions to their findings.

The first and major organisation that has to be mentioned is the UNDP. Since it started publishing its Human Development Reports in 1990, it yearly gives statistics on the growing inequality at world level. In 1992 it published the now famous ‘glass of champagne’ showing how the richest 20 % of the world’s population possess 82,7 % of global income, while the poorest 20 % have to share 1,5 % of global income. “*The world’s richest 1 % of people receive as much income as the poorest 57 %. The richest 10 % of the US population has an income equal to that of the poorest 43 % of the world. Put differently, the income of the richest 25 million Americans is equal to that of almost 2 billion people*”²². However, despite these shocking statistics, the UNDP never has political proposals to reduce these income inequalities. It seems as if the examples were just mentioned to encourage all political actors to engage in more solid human development efforts. It is one of several points in which the UNDP shows to be slightly schizophrenic²³.

²⁰ Suplicy, E., *Renda da Cidadania. A Saída é pela porta*. Sao Paulo, Cortez Editora, 2002.

²¹ De Ferranti, D. et al., *Inequality in Latin America. Breaking with history?*; Washington, The World Bank, 2004.

²² UNDP, *Human Development Report 2002*, New York, United Nations, 2002, p. 19, box 1.1. “Global inequality – grotesque levels, ambiguous trends”.

²³ For other examples, see Mestrum, F., *Mondialisation et pauvreté. De l’utilité de la pauvreté dans le nouvel ordre mondial*, Paris, L’Harmattan, 2002, chapter 5.

Statistics are indeed very important. If poverty came on the political agenda before the World Bank had some more or less reliable empirical evidence on it, it seems as if the publication of data on inequality is one of the reasons why it may make a political comeback.

Just as is the case with poverty, there are many different ways to measure inequality, and they are not ideologically neutral. Many researchers have looked at the possible links between globalisation and inequality, but come to divergent conclusions. Dollar and Kraay from the World Bank²⁴ admit they have insufficient data to make any firm statements, but they do conclude that globalisations increases inequality within countries. Chen and Ravallion²⁵, also from the World Bank, estimate the Gini index to have risen by 5 % between 1988 and 1993, a result that wiped out the gains from growth for the poor. Another World Bank researcher, Rama²⁶, answers with a cautious yes to the question if globalisation led to more inequality. Looking at the historical trends, O'Rourke²⁷ concludes that world inequality has increased substantially since 1820, and that this rise is entirely driven by the growing inequality between countries. The within-country inequality has dramatically declined between 1910 and 1950. Lindert and Williamson²⁸ also look at the historical trends, but conclude that the changes in inequality cannot be attributed to more or less openness. According to them, it is difficult to show that liberalism is positive for poor countries, though all depends on the policies they pursue. In its second major report on poverty, the World Bank²⁹ states that the impact of globalisation on inequality is very complex to measure, that the inter-country inequality has decreased thanks to China and India whereas the within-country inequality of most populous countries has modestly increased. According to Maddison³⁰, the gap between rich and poor countries and decreased between 1950 and 1973 but has been rising since. Another OECD study³¹ concludes that globalisation is not the main reason of growing inequalities, though it has mainly benefited rich countries. A WIDER study edited by Cornia³² notes a marked and undisputed rise in income inequality in two thirds of over 70 countries. Sala-i-Martin³³ notes a decline of inequality in the past 20 years, after a rise of one century and a half. This is mainly due to China and India and the author concludes that inequality will start to rise again when Africa has no strong growth soon. In its World Social Situation Report of 2005³⁴ the United Nations also states that there has probably been a modest improvement in the overall world distribution of income in the past two decades, though most of it comes from the rapid changes in China and India. A good part of the shift reflects the gains of the

²⁴ Dollar, D. & Kraay, A., *Growth is good for the Poor*, Development Research Group, The World Bank, 2000.

²⁵ Chen, S. & Ravallion, M., *How did the world's poor fare in the 1990s?*, Development Research Group, The World Bank, 2000.

²⁶ Rama, M., *Globalization, Inequality and Labor Market Policies*, Development Research Group, World Bank, June 2001.

²⁷ O'Rourke, K., *Globalization and Inequality: Historical Trends*, Trinity College Dublin, CEPR and NBER, April 2001.

²⁸ Lindert, P. & Williamson, J., *Globalization and Inequality: A Long History*, World Bank Annual Conference on Development Economics – Europa, Barcelona 2001.

²⁹ World Bank, *World Development Report 2000/2001. Attacking Poverty*, Washington, World Bank, 2001.

³⁰ Maddison, A., *The World Economy. A Millennial Perspective*, Development Centres Studies, Paris, OECD, 2001.

³¹ Kohl, R., "Introduction" in Kohl, R. (sous la direction de), *Mondialisation, pauvreté et inégalité*, Paris, OCDE, 2003.

³² Cornia, G.A., *Inequality, Growth and Poverty in an era of Liberalization and Globalization*, UNU-WIDER Studies in Development Economics, Oxford, Oxford University Press.

³³ Sala-i-Martin, X., *The World Distribution of Income. Falling Poverty and ... Convergence, period**, Draft, October 2005, http://www.columbia.edu/~xs23/papers/pdfs/World_Income_Distribution_QJE.pdf.

³⁴ United Nations, *World Social Situation. The Inequality Predicament*, New York, United Nations, 2005.

poorer segments of society at the expense of the middle-income groups in these two countries. When China and India are not factored into the analysis, the UN notes a rise in income inequality. And the share of the richest 10 % of the population has increased from 51,6 to 53,6 % of total world income. Further studies have been made by WIDER³⁵. Davies et al. researched the inequality of wealth, which is greater than the inequality of income. Birdsall states that inequality is economically destructive. The more inequality there is, the less middle class there is. Globalisation does lead to more inequality, she says. But, according to Nicholas Stern³⁶ of the World Bank, it is a big myth that globalisation leads to growing inequality. To which Ha Joon Chang³⁷ retorts that it is a myth to say that neoliberalism works. Neoliberalism aggravates inequality among and within nations, according to this scholar.

These diverging conclusions are in fact inevitable because there are too few reliable data to measure inequality, because different measurements are possible and different methods can be used³⁸. The lack of data is even worse than in the case of poverty measurements, where 93 countries lack data on the 1 \$ a day poverty line³⁹. The main differences however come from the ideological stance the authors are taking, the different values about what constitutes a just distribution of the gains from globalization⁴⁰.

A first difference concerns the distinction between two very different concepts of inequality, one of which depends solely on proportionate differences in incomes while the other depends on the absolute differences. Critics of globalization will use mainly the second kind of inequality, in order to point to the '*income gap between rich and poor*'. If the income of the poor and the rich double in size, the relative income gap remains the same, whereas the absolute income gap rises sharply because the income gain is greater for the high-income household. There is no economic theory that tells us that inequality is relative, not absolute. Absolute and relative inequality are two different concepts. The preference for one over another reflects an implicit value judgment.

A second difference relates to whether one can focus solely on how the average gains from growth vary with income. Defenders of globalization tend to focus on aggregates, while opponents will emphasize the losers among the poor. Growth tends to reduce absolute poverty on average, but that does not imply that growth is always good for the poor. If one person loses and another one gains, the impact will not be seen in the statistics, unless one specifically wants to analyze this kind of 'churning'.

The third difference concerns the inequality between countries and the question whether one should weight countries equally or people equally. This is the interpersonal vs the inter-country inequality. Critics of globalization point to the fact that income disparity has been rising over time. The average income of the richest country in the world was about ten times that of the poorest around the end of the 19th century. Today it is sixty times higher. This is

³⁵ Davies, J.B. et al., *World Distribution of Household Wealth*, UNU-Wider, December 2006 ; Birdsall, N., *The World is Not Flat: Inequality and Injustice in a Global Economy*, Wider Annual Lecture 9, 2005; see also Wider Angle 2/2005.

³⁶ Stern, N., *A Strategy for Development*, Washington, The World Bank, 2002.

³⁷ Ha-Joon Chang & Ilene Grabel, *Reclaiming Development*, London, Zed Books, 2004.

³⁸ Three major methods are being used: the Lorenz curve, the Theil indicator or the Gini index. This last measurement is the most frequent, with values between 0 for perfect equality and 1 for perfect inequality. Another possibility is to look at the ratios of richer to poorer.

³⁹ UNDP, *Human Development Report 2005*, New York, United Nations, 2005, p. 336.

⁴⁰ Ravallion, M., *Competing concepts of Inequality in the Globalisation Debate*, World Bank Policy Research Paper 3243, March 2004.

correct if one treats each country as one which means that countries and not people should get equal weight in assessing the fairness of distribution. But an alternative concept is the between-country component of total interpersonal inequality. Or, other possibility, one can look at the within-country inequality. If instead of weighting countries equally one uses population weights then the tendency for rising inequality between countries vanishes. Inequality is even the lowest it has been in half a century. When one looks at the high growth rates of China and India, the two most populous countries in the world, one clearly sees the importance of these differences.

Wade points to some more difficulties⁴¹: the used income data (real \$ or Purchase Power Parity; national income accounts or household surveys), and the samples of the countries one wants to analyse. He looks at different alternatives and concludes that world inequality is increasing in almost all cases.

One of the major researchers on inequality, Branco Milanovic, works with three different inequality concepts⁴². The first is an unweighted international inequality. It uses income or GDP per capita and disregards population. This inequality has clearly been rising in the past decades. In making a distinction between four groups of countries, the rich ones, the 'contenders', ready to catch up and join the rich club, the 'third world' countries and the 'fourth world' countries. From the 19 non-western countries that belonged to the rich club in 1960, only 4 remain there in 2000. 4 new non-western countries joined the club of the rich. The group of 'contenders' almost disappeared. 20 out of the 22 original contenders in 1960 were either in the third or in the 4th world group in 2000. The Group of fourth world countries increased from 25 in 1960 to 71 in 2000. This makes Milanovic conclude that there has been an 'Africanization' of poverty and a 'westernization' of wealth.

His second concept is population weighted international inequality where one assumes that everyone in a country receives the same income but the number of representative individuals from each country reflects its population size. It assumes that within-country distribution is perfectly equal. Measured in such a way, inequality has decreased in the past 20 years, though it has increased if one takes out India and China.

The third concept treats, in principle, everyone the same, regardless of the country one comes from. This is no longer an international measurement of inequality but a global one. It goes beyond methodological nationalism. Here we see a sharp increase in inequality between 1988 and 1993. The poorest 5 % have lost almost 25 % of their real income, while the top quintile has gained 12 %. Most of this increase can be explained by the rise of between-country inequality. 50.000 rich people receive as much as 2,7 billion poor people. 75 % of the world population lives with less than the world mean income of 3526 PPP\$.

Measuring inequality with the third concept, Milanovic notes that only 17,4 % of the world population is 'middle class' and that they receive only 6,5 % of the world 1998 income. Milanovic concludes that '*people are poor because they live in poor countries*⁴³'.

⁴¹ Wade, R.H., *Globalization, poverty and income distribution: does the liberal argument hold?* Conference document 'Towards a new political economy of development', *Political Economy Research Center, University of Sheffield, July 2002*.

⁴² Milanovic, B., *World Apart. Measuring International and Global Inequality*, Woodstock, Princeton University Press, 2005.

⁴³ Milanovic, B. & Yitzhaki, S., *Does the world have a middle class?*, World Bank, s.d.

Why should inequality be back on the agenda?

The availability of empirical data on inequality has certainly to be mentioned among the reasons why inequality is making a slow comeback. The magnitude of inequality is such that it would be politically unacceptable to ignore it. But that is certainly not the only reason why international organisations with a clearly liberal programme do have some attention for inequality.

In preparing its second major poverty Report of 2000, the World Bank published various articles on the new poverty data, on its new social protection policy and also one on the reasons why inequality was back on the agenda. Equity and efficiency are not separable phenomena, the authors note, because markets are never perfect. Even if inequality does not change much over time, the task is to find combinations of instruments that will deliver both growth and equity. The world seems to be converging towards two clubs: a rich one and a poor one. Policy matters, and a country's evolution can be altered by intervention.

In his answer to an article of Dollar & Kraay⁴⁴, Ravallion shows that one should look beyond averages in order to assess the impact of growth on poverty. Overall poverty may remain unchanged, but some people can be lifted out of poverty, while others become poor. He also shows that inequality can be an impediment for pro-poor growth and that in countries with high inequality it is perfectly possible that growth has no impact at all on poor people⁴⁵. These findings are confirmed in other articles and formally integrated in the World Bank's thinking. '*High levels of inequality and deprivation can be harmful to efficiency and growth*', states the World Development Report of 2003⁴⁶.

In 2006, the World Bank's World Development Report was dedicated to equity⁴⁷. '*Equity and equality overlap quite extensively*' stated one of the outlines of the report in which both concepts were used without ever making a clear distinction. If this focus on equity is a major achievement for the World Bank, it should also be noted that the final report is exclusively focusing on 'equity'⁴⁸ and ignores 'equality'. The policy aim is not equality of outcomes. Outcomes matter, but mainly for their influence on absolute deprivation and their role in shaping opportunities. Individual incentives should not be blunted by income redistribution schemes, because that could lead to less growth. '*The history of the twentieth century is littered with examples of ill-designed policies pursued in the name of equity that seriously harmed [...] growth processes... A balance must be sought...*'⁴⁹. The report constitutes a real shift in World Bank thinking by mentioning social protection as opportunity-enhancing, minimum wages, human rights and core labour standards, even taxes, though all these elements are said to imply serious trade-offs. In fact, the report does not concern income inequality but merely inequality of opportunity, and it does not give statistics on income inequality. Moreover, this seemingly positive shift at the World Bank is contradicted by

⁴⁴ Dollar, A. & Kraay, A., 2000, *op.cit.*

⁴⁵ Ravallion, M., *Growth, inequality and poverty: looking beyond averages*, Development Research Group, World Bank, s.d.; these findings are contradicted however by Dany Quah, who uses another econometric model. '*Some Simple Arithmetic on How Economic Inequality and Economic Growth Matter*', LSE Economic Department, July 2001.

⁴⁶ World Bank, *World Development Report 2003*, Washington, The World Bank, 2003, p. 53.

⁴⁷ World Bank, *World Development Report 2006. Equity and Development*, Washington, The World Bank, 2005.

⁴⁸ The UN gives following definitions: equity is when equals are treated equally to arrive at an equitable outcome; an equal outcome can be arrived at when unequal interventions are required in unequal situations. *Report on the World Social Situation 2001*, New York, United Nations, p. 3.

⁴⁹ World Bank, 2005, *op. cit.*, p. 3.

another series of its reports that classifies countries positively when they have little or no labour market regulations, and gives them a negative note when they have⁵⁰.

And some other good reasons to fight inequality

The reasons mentioned by the World Bank why inequality is back on the agenda are rather limited though not unimportant. Its 2006 report shows that the Bank is not really convinced of the usefulness of analysing income inequality. In fact, its reasoning on the links with the poverty-reducing potential of growth could lead to a kind of 'optimal inequality': small enough not to hinder poverty reduction, large enough not to hinder growth.

There are other reasons for tackling inequality.

The first reason is moral indignation, not only faced with the magnitude of inequality, but also faced with the profound feeling of injustice many people have. Milanovic⁵¹ gives the example of a room full of people where one person gets 20.000 \$ and all others between 25 and 75 cents. Everybody's welfare improves, yet most people will not accept this unfair distribution. The income people receive is not only a means whereby to acquire more goods and services, it is also a tangible recognition of how society values them. Equality is a fundamental value in each society, and that is why the point of inequality becomes relevant when so much attention is focused on globalisation. The inequality between Africa and Europe is not relevant as long as there is no human interaction between them, but once there is, inequality becomes very important.

This argument becomes very important when newspapers have daily stories on the huge wealth accumulation of CEO's and of mass lay-offs in companies making profits. According to the Merrill Lynch *World Wealth Report*⁵², there are now 8,7 million people worldwide with more than 1 million \$ financial assets (HNWI or high net worth individuals), an increase with 7,6 % per year since 1996. 1 % of them own more than 30 million \$ in financial assets. Their accumulated wealth went from 16.600 billion \$ in 1996 to 33.300 billion in 2005, an increase with 8 % per year or much more than the economic growth figure. According to the ILO, 1,39 billion people or 50 % of the total labour force and 58,7 % of the labour force in developing countries earned less than 2 \$ a day in 2003. 550 million people or 23,3 % of the labour force of developing countries earn less than 1 \$ a day. Half of the world's workers are thus working poor⁵³. Less than 10 % of the population in the poorest countries has adequate social security protection. In December 2006, 4000 financial workers in the City of London received each a bonus of 1,5 million Euros.

A second reason again is linked to globalisation and the paradoxical need of borders linked to growing inequalities. If one believes in the desirability of one world community in which not only goods and capital but also people can move freely, inequality is clearly a major problem. The gap between rich and poor countries as well as the lack of perspectives in large parts of

⁵⁰ World Bank, *Doing Business 2006*, Washington, The World Bank, 2006.

⁵¹ Milanovic, B., *Why we all do care about inequality (but are loath to admit it)*, World Bank, Development Research Group, October 2003.

⁵² CapGemini/MerrillLynch, *World Wealth Report 1997-2006*, 2006, www.us.capgemini.com/worldwealthreport06/; The Boston Consulting Group also publishes regular reports on global wealth. It works with three different categories of investors: up till 1 million US\$, between 1 and 5 million US\$ and the 'established wealthy investors' with more than 5 million US\$, www.bcg.com.

⁵³ ILO, *World Employment Report 2004-2005*, Geneva, ILO, 2005.

the world, make people migrate in search of better opportunities. It is not the extremely poor people that leave their country, but mainly middle classes and some poor people with skills that are needed in rich countries. However, rich countries lack the social basis for mass migration, welfare states are under severe pressure, so-called illegal migrants are often exploited on the labour market or die on the Mediterranean beaches or at the Southern electronic border of the United States. There clearly is no free movement of people, today's migration is a kind of survival strategy and borders have to be raised in order to stop mass migration. In turn, this is one of the reasons why rightwing populist and often racist or xenophobic political forces gain momentum in most rich countries and threaten democracy. Huge inequalities, then, make borders necessary and hinder the free movement of people. In other words, huge inequalities are not compatible with globalisation nor with democracy.

A third reason is linked to political instability. Since 2002 and the RIO+10 UN conference on sustainable development, the World Bank speaks of 'social sustainability'. Social matters are part of a government's portfolio and are to be managed in the same way as environmental matters. Problems arise when these 'assets' are at risk and can lead to '*social stress – and at the extreme, social conflict*'⁵⁴. Contrary to the Club of Rome's statement of 1971 calling for 'limits to growth' in order to preserve the environment, the World Bank calls for poverty reduction and environmental protection in order to preserve the growth process and avoid conflicts. However, there is no evidence at all that extremely poor people are a root cause of political instability or terrorism. Extremely poor people, living on less than 1 \$ a day in a market economy, have to use all their time and their energy in trying to survive. By contrast, middle classes threatened by impoverishment, young graduates with no employment perspectives, professionals frustrated by the non-met promises of development, all faced with the constant western good-news-shows of globalisation may have reasons to resist and revolt. Growing inequalities can only worsen this situation. The most urgent task then should not be to reduce poverty – however necessary that is – but to reduce inequalities. If one wants to promote global political stability, the best 'war on terror' is not 'war on poverty' as the former World Bank president, Jim Wolfensohn, declared, but a war against inequality.

A fourth reason is also political. Social and economic rights came into being in order to give meaning to political citizenship. Citizenship is based on equality. Throughout the end of the 19th and the first half of the 20th century, a growing consciousness of the importance of equality and of the equal value of all human beings led to the creation or the promise of welfare states. Equally, the development project that came into being after the Second World War was explicitly aimed at closing the gap between poor and rich countries. However, the current growing inequalities undermine the political citizenship of individuals. In poor countries, it is not too difficult to 'buy' the votes of poor people, just as it is not difficult to 'buy' the votes of poor countries in international assemblies. Economic differences imply asymmetric power relations and the domination of some over others. At the United Nations, poor countries are often obliged to follow the vote of the rich countries, in order to maintain their development aid. The World Bank and the IMF can impose their economic conditions of privatization and deregulation because they hold the key to development financing. The UN Charter speaks of the 'sovereign equality' of countries, but geopolitics and inequality inevitably point in another direction.

A fifth reason is linked to the 'debt' of rich countries towards poor countries. Recent history can be said to have favoured the rich world and impoverished the poor world. There is now a

⁵⁴ World Bank, 2003, *op. cit.*, p. 14.

lot of evidence that structural adjustment policies clearly had huge negative social consequences for poor countries. The costs of the economic crisis that started in the 70s have largely been transferred on the poor countries, in the form of debt servicing, falling commodity prices, rising imports from the rich world and capital flight. Between 1998 and 2003, net transfers from poor to rich countries were 51 to 132 billion \$ per year. Poor countries had 1460 billion \$ deposits in banks of the North, whereas they had 700 billion \$ of debt towards these same banks⁵⁵. Apart from this social debt, rich countries have an enormous ecological debt by the way they are exploiting natural resources, their responsibility for the diminishing of biodiversity, their CO2 emissions that reduce the development possibilities of poor countries, as well as their production of dangerous or polluting chemical, toxic or nuclear arms and waste. Measuring this ecological debt is a complex and controversial exercise, but over a period going from 1950 to 2000 a country like India would have accumulated a 'carbon credit' of more than 500 billion Euro, a country like Congo between 27 and 38 billion Euro⁵⁶. Finally, there are good reasons to mention a historical debt, due to centuries of colonisation and slave trade that robbed poor countries of their best natural and human resources. Again, measuring this debt is necessarily a controversial issue, but taking into account the 'transfer' of tens of millions of black people from Africa to the Americas, the amount cannot be a minor one.

This fifth reason calls for some reflections on responsibility. If the debt question clearly is the consequence of a historical process, do current generations bear any responsibility for it and do they have to service this debt? It is difficult to give a positive answer to this question, since no one can inherit their ancestors' sin. But as Thomas Pogge⁵⁷ rightly asks, then why '*can they inherit the fruits of those sins, the huge economic superiority prevailing at the end of the colonial period*'? The inequality built up in the colonial period made for a very unequal start into the post-colonial era. These inequalities are mirrored in the very asymmetric power relations of organisations like the World Bank and the IMF, where 24 African countries have less than 1,5 % and China less than 4 % of voting power, whereas the United States with less than a quarter of China's population has more than 15 %. In other words, inequality tends to reproduce itself.

How to fight income inequality?

If there are good reasons to fight inequality, does it mean we have to aim for full income equality? While some people will positively answer that question, it is widely believed that some degree of inequality is perfectly acceptable because of different talents, the impossibility of perfect equal opportunities and the divergent reactions to the incentives of inequality. But what degree of inequality is acceptable or unacceptable, cannot be answered at a theoretical level. It is a highly political question that can only be answered in a broad democratic debate.

If inequality is to be limited, in what way should it be done? By and large, there are two possibilities.

⁵⁵ Toussaint, E., *Enjeux politiques de l'action de la BIRD et du FMI envers le tiers-monde*, Thèse de doctorat en sciences politiques, Université de Liège et Université de Paris 8, 2004.

⁵⁶ Ecologische Schuld: het onderzoek, *Zacht geritsel*, VODO, s.d.

⁵⁷ Pogge, T. , *The First Millennium Development Goal. A cause for celebration?* http://www.etikk.no/GlobalJustice/oslo_Global_Justice_mainlecture.doc

On the one hand, inequality can be reduced by giving poor people a possibility to rise to the income level of middle class or wealthy people. This goes already much further than the current millennium development goals or the poverty reduction strategies of the World Bank, which only fight extreme poverty. But this very attractive solution is not possible from an ecological point of view. The human environmental impact is already superior to the regenerative capacity of the planet with an 'overshoot' of 20 %. The ecological footprint of the United States is, per capita, more than ten times as high as in India. A massive rise of incomes and western-style consumption would be a kiss of death to the sustainability of the planet, though new technologies can mitigate some of the consequences.

On the other hand, inequality can be reduced by curbing the incomes of the wealthy. This implies a redistribution of income and/or wealth in order to reduce poverty and inequality. Traditional methods to realize this are philanthropy and charity, income taxes, wealth taxes and social security.

Philanthropy seems to be the preferred method of today's rich. The ten largest foundations in the United States and Europe had more than 150 billion \$ in assets in 2005⁵⁸. Warren Buffet and Bill Gates, two of the world's richest men, have joined hands and now count on 60 billion \$. In the United States, private giving far outpaces government aid and climbed to over 70 billion \$ in 2004. Giving clearly makes rich people happy. It not only gives them tax benefits, it also is evidence of their social usefulness. Moreover, it gives them unlimited power. There is no democratic control on how and where foundations spend their money, whereas official development aid is scrutinized to the last penny and has to prove its effectiveness.

A wealth tax is on the other extreme of rich people's preferences. Only a few countries have a real property tax, though possibilities for tax evasion are numerous.

A progressive income tax is the best redistributive method⁵⁹, though it becomes less and less popular and gives way to indirect taxes or a flat tax rate that are paid in a disproportionate way by lower-income families.

Taxes allow governments to provide for public goods, like public services that give equal access to all to social services (education, health, environment...). They also have a role in the defence of democracy. Apart from the old maxim '*no taxation without representation*' (and vice versa), taxes allow governments to have more legitimacy, as citizens can exert pressure for efficient spending and governments can be made accountable. Taxation can become an important element in the pursuit of 'good governance' and democratization.

Social security has a dual function: to protect people against the arbitrariness of the market place and to organise solidarity. It is an insurance mechanism and an instrument for guaranteeing incomes. In that way, it plays an important role in the redistribution of incomes, even if benefits are totally derived from labour incomes and not from capital. Before the neoliberal era, the World Bank promoted social security as an important factor in the modernisation of societies, by replacing communitarian or tribal solidarities by state organized solidarities, or, to use the Durkheimian terminology, by replacing organic by mechanic solidarity. Again, this can be a democracy-enhancing mechanism.

⁵⁸ The New Powers in Giving, *The Economist*, July 1st 2006, p. 65.

⁵⁹ Piketty, T., *L'économie des inégalités*, Paris, La Découverte, 1997 ; Bourguignon, F., « Redistribution et développement » in Bourguignon, F. et al., *Développement*, Paris, La Documentation Française, 2000.

In the relationship between rich and poor countries, taxes and social security are not applicable as yet. Here development aid could play a redistributive role, but the volume of ODA (official development aid) is too limited to have any serious impact. Moreover, a large share of aid never leaves the donor country or organisation, but is spent on overheads, staff or acquisitions in the North.

József Böröcz⁶⁰ calculated what it would give if between country inequality were reduced by half, that is 'if all states were to move toward the global mean by reducing their distance to it by 50 %'. This would not change the rank order of countries, those at the top would remain at the top and those at the bottom as well. The Czech Republic and Mexico are somewhere at the turning point, the first having to reduce its income by a minor amount, the second increasing its income with a minuscule margin. This redistribution would make a serious impact on the bottom part of the list, with a majority of humankind. While this can hardly have any influence on the quality of life of the rich countries – the traditional social indicators of life expectancy, child mortality, literacy, etc. – it would have a very serious impact on the choices offered to people in the poorest countries and thus on the quality of life. Life expectancy at the bottom of the income scale would go up to well over 70 (now between 34 and 52). The increases in literacy would be 50 to 100 %. In purely monetary terms, this system could almost finance itself. The balance of out- and inflows would be negative, but the magnitude of the deficit is only 0,93 % of total world GNI. Or less than the promised 0,7 % of development aid of rich countries.

World Public Finances

If poverty reduction remains the major priority of the international community, it should be clear that this should not be limited to extreme and absolute poverty. Even if all extreme poverty could be eradicated – way beyond the millennium development goals – we would not live in a more just world if, at the same time, inequality is growing. People do not revolt because they are poor, but because they experience injustice, because their dignity is oppressed, because they are marginalised and feel excluded from the moral unity of humankind.

Even fighting absolute poverty requires that inequality is tackled. Rising inequality may prove to be incompatible with poverty reduction strategies. Inequality can even be a source of poverty. Asset and income inequality are a major impediment to poverty reduction⁶¹. Growth is clearly not enough and threatens to be uneven and to worsen inequality. Countries with the lowest poverty rates are also the countries with the lowest inequality. The MDG's will probably not be met, due to inequality trends⁶². Whatever way one looks at the problem of poverty and inequality, it seems obvious that redistribution should be back on the agenda and that is why the concept of World Public Finances is so important. It can only happen on economic and political grounds.

Globalisation could be the first historical process that gives a real and meaningful content to the concept of global community, of one universal humankind that has remained a fiction for

⁶⁰ Böröcs, J. , Redistributing Global Inequality. A thought experiment, *Economic and Political Weekly*, February 26, 2005, pp. 886-892.

⁶¹ Chen, S. & Ravallion, M., 2000, *op. cit.*

⁶² Cornia, G.A., "Poverty and Inequality in the era of liberalization and globalization" in van Ginkel, H. et al., *Human Development and the Environment. Challenges for the United Nations in the New Millennium*, Tokyo, United Nations University Press, 2002.

far too long. Today we need the development of global identities in order to allow for a global welfare project and in order to see every citizen as an “insider” and part of “us” and not an objectified “them” or “other”. In order for globalisation to benefit every one, inequality should be tackled with re-distributional justice, with global taxes and global social protection, beyond poverty reduction. Poverty is not an individual problem, but a problem of the whole of society, it points to a biased distribution of incomes and that is the level where it has to be tackled.

Distributional justice requires public finances and global distributional justice requires global public finances, since finances can no longer be looked at from the exclusive vantage point of national states. Moreover, neoliberal globalisation has already seriously eroded the fiscal capacities of national states. Tax evasion and tax havens will have to be fought, while global taxes will have to create a solid basis for redistribution at the global level. This redistribution can take the place of development aid, a very arbitrary and inefficient way of financing poor countries. The new thinking on development assistance with budget support is a positive step in the right direction but it is still too closely linked with hard conditionality. With an efficient monitoring system on the arms trade and on capital flight, with more transparency on capital movements and consciousness of the necessary sustainability of the global system and human interdependency, this is perfectly possible.

Today, a window of opportunity may be opening. On the one hand, there is an emerging global civil society that presses governments and international organisations to change policies and commit themselves to economic and social development programmes. On the other hand, there is the dwindling legitimacy of the Bretton Woods institutions that may give another chance to the UN to promote and coordinate development cooperation. A ‘Global Fund’ for globalisation and/or development could play an important role in spreading the concept of world public finances, in proposing global taxes and in organising global redistribution, based on the idea of a global welfare state.

The concept of World Public Finances has a very high potential to re-orient the development debate. It allows for thinking on the provision of global public goods like the global environment, public services, water and redistributive justice itself. The concept allows for avoiding the pitfalls of a too narrow vision on development and global taxes. What has too often been forgotten in the past decade is that development does need an important capital input. Aid can be multilateralized and become a global system of income redistribution.

Like poverty, inequality cannot be exclusively looked at from the vantage point of the poor. They are social and societal problems that concern all of us. Poverty and inequality cannot be dissociated from wealth, they are like breathing in and breathing out, they are both part of one single system that produces both wealth and poverty. The ethical and theoretical basis for fighting inequality beyond poverty reduction is rather small, but there are ample economic and political grounds.