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REDISTRIBUTION AND BEYOND: EXPLORING THE BASICS
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Global Redistribution as a Solution to Poverty

The scale of global inequality is universally agreed to be unacceptable. Yet little has been done to tackle inequality directly through redistribution of incomes on a global level. Although redistribution, through tax and welfare systems, is at the heart of anti-poverty programmes in developed countries, it has not been a serious proposition at an international level until now. The financial crisis has propelled two interventions onto the agenda which together look like a global welfare state: social protection and tax reform. This briefing asks what is driving global inequality? And how can redistribution help tackle existing inequalities and contribute to poverty reduction internationally?

The scale of global inequalities in income and wealth has been described as 'extraordinary', 'incredible' and 'obscene' by Oxfam, David Cameron and Nelson Mandela respectively. Most people seem to agree. Certainly, no one could argue that a world where, according to the United Nations Human Development Report, the richest 500 people earn more than the poorest 416 million is anything other than remarkable.

But until now very little effort has been expended on addressing income inequality directly through redistribution of incomes on a global level. It has been assumed that any redistribution should be primarily at national level, and that any welfare or social protection schemes funded through redistributive taxation will be limited to what national governments can afford.

The financial crisis may have changed that. It has created problems that are beyond the capacity of individual governments to solve, reigniting interest in a broader range of global policies and actions. It has also pushed new issues up the agenda – chiefly social protection and tax reform – issues that are at the heart of tackling poverty at a national level in many countries, and could potentially form the pillars of a global welfare system

This *In Focus Policy Briefing* asks the critical question: can a global model of poverty reduction through redistribution from rich to poor work? And if so, how?

Inequality, redistribution and growth

Given the near-universal consensus that inequality is a bad thing, it is surprising that so little attention has been given to policies to directly tackle it, as a way of reducing poverty. Despite the efforts of a few, such as Branko Milanovich at the World Bank, who has suggested a 'commodities tax' as a way of redistributing incomes worldwide, and Kevin Watkins at UNESCO, who has suggested that reducing inequality becomes an explicit international objective in any new agreement taking forward the Millennium Development Goals, redistributing incomes as a way of reducing poverty is almost absent from the international agenda.

This is all the more striking since redistribution, through tax and welfare systems, is at the heart of anti-poverty programmes in donor countries. The UK and the US both spend around 60 per cent of the central government budget on welfare – money that comes from taxing the better off and that is spent largely on cash transfers, housing, and providing medical care for the poor. The modest level of redistribution involved has not prevented growing inequalities in these countries, but it has ensured a floor below which the majority of the population (subject to certain exclusions, such as asylum seekers) are not allowed to fall.

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> "Inequality doesn't happen by accident – it is created at both national and international levels by the combined workings of politics, of social and gender norms, and by the actions of individual companies and people."

The closest thing to tax and spend in international development is aid. Money from taxpayers in rich countries is spent through governments or other agencies on (some) poor people in (some) poor countries. But this falls short of an international redistributive mechanism for many reasons:

1 *Aid is highly conditional.* The most significant conditionality is the political circumstances of the donor country. Aid levels fall or rise not because of need in poor countries, but because of political calculations in rich countries.

2 *Many countries do not direct aid to where people are poorest.* According to the OECD's figures, less than a third of US international aid is spent in the poorest countries. The UK is one of the few countries where poverty reduction is an explicit and legally binding objective of aid spending. Too often aid is spent in countries that are politically expedient, rather than where the need is greatest.

3 *Even if aid reaches the poorest countries, there is no guarantee that it will be spent on the poorest people.* The precipitous falls in aid to agriculture over the last 20 years, despite that fact that most of the world's poorest live in rural areas, illustrates that national governments, as well as donors, will not necessarily spend aid in a redistributive manner.

Rather than redistribution, it is growth that is assumed to be the main engine of poverty reduction. But even at the high average rates of growth seen in many developing countries before the financial crisis, poverty reduction is a slow business if we rely on growth alone. Many countries are not on track to achieve the Millennium Development Goal of halving world poverty by 2015. And since the food and finance crises of 2008, and their disastrous impact on global growth rates, that goal is even more distant. Government efforts to increase both the rate of growth and the extent to which poor people feel the benefits of that growth are important. But growth is not the end of the story.

Boundaries of redistribution

It's time to take seriously the possibilities for global redistribution of incomes as a mechanism to end poverty. Given the increasingly global nature of economic relationships, it seems illogical and unfair to insist that the redistribution of the benefits of globally managed economic activity should be defined by national boundaries.

Redistribution of what?

Previous forays into the politically-charged arena of redistribution have focused on redistribution of 'opportunity'. The World Bank's 2006 World Development Report on 'equity and development', deplores the levels of inequality in the world. But it is almost silent on the idea of redistribution of income, focusing instead on 'equality of opportunity', and improving market functioning to enhance economic opportunities. This is an agenda that could, broadly defined and adequately resourced, have far reaching effects in the long term, but will do little for those trapped in poverty now.

In the short term, the 2006 report allows some possibility of redistributing assets. There is some consideration of how land reform could work, but there are a mere two pages in a report of over 300, on redistributing incomes through taxation. Since the publication of that report, the discussion of redistribution of incomes rather than of opportunities has edged up the agenda, but it is still far from the development mainstream.

Drivers of inequality

Inequality doesn't happen by accident – it is created at both national and international levels by the combined workings of politics, of social and gender norms, and by the actions of individual companies and people. Politics and business work together to redistribute wealth globally from poor to rich, and as many governments have found to their cost, reversing that flow involves taking on the most powerful interests both globally and nationally.

Wages, profits and inequality

One factor driving growing global inequality has been the huge increase in the global labour force as more countries have entered global markets. Five hundred million people producing for export markets, mainly in China, joined the global workforce between 1980 and 2000, with little increase in the total amount of capital available (Akyuz 2006).

The shifting balance between capital and labour has meant that in most countries workers are getting a smaller share of national incomes than twenty years ago (International Labour Organisation 2008). The impacts of this increased supply of labour have been mediated through existing gender norms. For example, womens' weaker position in labour markets has meant that they are deliberately sought by employers on the basis that they will accept a lower wage. Correspondingly, investors are taking a greater share of profits. In 2006, before the financial crisis, the amount of GDP that went directly into shareholders' pockets was at its highest in America for 75 years, and in the European area and Japan was at its highest for 25 years (Woodall 2006).

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As governments compete for investment on the basis of cheap labour, they also become complicit in driving increases in inequality. For instance, police are employed in Bangladesh to subdue women garment workers striking to demand a bigger percentage of the profits be given to them in wages. But the same government suspends labour laws in so-called 'export processing zones' to allow companies to extract an even higher rate of profit from their operations. The result? Value is transferred from Bangladeshi workers to company owners in Bangladesh, and via supply chains to the owners of retail companies in the US and Europe (ActionAid 2007).

Similarly, competition for scarce investment capital on the basis of low taxes is increasing levels on inequity in mineral-rich countries of Africa. Global mining companies are taking advantage of generous tax breaks to extract the natural resource wealth that sits in the ground and take it out of the country. This leads to huge profits for the companies and almost no revenue for either governments or workers in the countries where the resources originate. (Open Society Institute of Southern Africa *et al* 2009)

The combined effect of governments basing policy on what is good for business, and companies responding enthusiastically to the new opportunities created, is the rising levels of inequality that we see in the world today.

It also represents a huge missed opportunity for poverty reduction. An estimated 160 million dollars is exacted from developing countries through tax evasion by multinational companies every year. If even a fraction of that money was spent on health services, or on cash transfers, the results could be dramatic.

New opportunities to make redistribution part of development policy

Now could be the moment to challenge the international coyness about redistributing incomes. The financial crisis has created a small gap in the political firmament in which global redistribution could fit.

Social protection

Social protection is clearly an idea whose time has come. The combined effect of the food and financial crises is reversing development gains in many countries, and the scale of human need is forcing a response. The communiqué of the G20 leaders meeting in London in April contained two references to social protection, and a commitment to provide resources for it. The African Union's recently agreed 'social policy framework' contains a commitment to invest in social protection on the continent.

But, globally, the ambitions for social protection will quickly fall short unless it is adequately funded. This is where some of the other proposals that have seen new life since the financial crisis come in.

Tax reform

The renewed interest in tax as a source of funding for development opens up the possibility of curbing at least some of the transfer of wealth from poor to rich, and creating something akin to a global progressive tax system. The financial crisis has helped by creating incentives for all countries, rich and poor, to get tough on tax evasion and financial transparency. Other ideas are back on the table too, such as a currency transaction tax which could redistribute income from financial institutions to poor people via a central administrative organisation.

These all tackle redistribution after the event – once inequalities already exist, tax and welfare systems can redress the balance very slightly. It can only be a part of an equity agenda that has to also encompass proposals to make growth happen in a way that generates fewer inequalities. But we might be astonished at what a modest redistribution of incomes could achieve.

If redistributed incomes were spent on providing cash transfers to people unable to work, and if those in work were guaranteed a minimum wage, and if governments guaranteed free health, sanitation and education services for everyone, this could free up an enormous amount of time and energy that currently people are expending simply to survive.

People working seven rather than fifteen hours to earn the money they need to survive and to support elderly or ill relatives would suddenly have the time to educate themselves, to play with their children, or to take part in community organising. The result? Better skills, happier families or better resourced communities. Women freed from the four-hour daily grind of collecting water could start businesses, participate in local decision making, or simply lead happier and more relaxed lives.

A robust redistributive system would also prevent the kind of reversals in progress on development that have been caused by the recent food and financial crises. Progress on development has been shown to be more fragile than perhaps was realised, with many tens of millions of people now predicted to be plunged back into poverty as a result of these joint shocks. A global system to redistribute incomes and provide a guaranteed standard of living for all would limit the terrible human cost of shocks, and protect poor people from bearing the brunt of global disasters.

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> Redistribution could play a major part in poverty reduction internationally, as it has done nationally in most rich countries.

Key messages for policy

- Recent trends have driven inequalities as governments have competed for scarce investment on the basis of offering companies opportunities to extract wealth from poor countries through low wages and tax breaks.
- Redistribution could play a major part in poverty reduction internationally, as it has done nationally in most rich countries.
- Growth, not redistribution, has been assumed to be the key element in poverty reduction. But growth alone cannot address issues of inequity and solve poverty.
- The financial crisis, and growing interest among policymakers in both social protection and tax reform, offers the possibility of working towards a global model of poverty reduction through redistribution from rich to poor. Growth will still be important, but the addition of a redistributive element would make poverty reduction both faster and more resilient to shocks like the financial crisis.

Further reading

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Credits

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For other briefs on 'redistribution and beyond' see: www.ids.ac.uk/go/infocus11

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