How to distribute resources to the poorest humans?

Adrien Fabre
info@global-redistribution-advocates.org

The extent of extreme poverty

There are 700 million people living below the threshold of $$_{PPP}$2.15 per day (in purchasing power parity), which is considered the extreme poverty line (World Bank, 2023). This threshold allows minimum nutritional needs to be met. Thus, the number of people in extreme poverty overlaps that of the 700 million undernourished people (FAO, 2023). The poverty gap is the amount that would be needed to close the gap between these poor people and the $$_{PPP}$2.15 threshold: it is $$_{PPP}$137 billion, or approximately €70 billion in nominal terms (own calculations based on PIP).

Where are the poor?

700 million people live in low-income countries. Low-income countries are defined by the World Bank as those with a per capita GDP of less than $1,135 per year. They include 21 countries in sub-Saharan Africa and four outside (Afghanistan, North Korea, Syria, and Yemen). Some Indian states are as poor as low-income countries, even though India as a whole is a lower-middle-income country.

What does development aid represent?

In 1970, industrialized countries committed to allocating 0.7% of their GDP to official development assistance, including 0.2% of GDP for the least developed countries (LDCs). This commitment, renewed in 2005 and 2015, has never been respected. More precisely, actual aid amounts to only half of the promised aid (including 0.06% of GDP for the LDCs), even though several European countries, including Germany and France, are respecting their commitment (OECD, 20023). EU countries contribute $115 billion, or 0.69% of the EU's GDP. It is estimated that most of the Sustainable Development Goals could be achieved if industrialized countries finally respected this commitment (SDSN, 2019).

How much to give?

It is reasonable to mobilise between €50 and €160 billion more (i.e. between 0.3% and 1% of the EU's GDP), and to increase EU transfers to the rest of the world to between 1% and 1.7% of its GDP. Indeed, **additional taxes can collect between 1% and 3% of the EU's GDP, and a third of this revenue could finance the fight against extreme poverty**.

What resources should be mobilized?

A. **A tax on European wealth** (or in voluntary countries)

Progressive net worth tax is the best way to successfully tax the richest (Saez & Zucman, 2019).

Plan A: Tax levied unanimously at the European level, which would increase the EU budget while reducing national contributions to the EU budget (and even more for poor EU countries). Plan B: Tax levied in willing countries.

Depending on the scale chosen, a wealth tax can generate up to 6% of GDP (Blanchet, 2022).

This simulator allows one to calculate what a given tax schedule would generate (taking into account tax evasion and the drop in asset prices that the wealth tax would cause). The table below shows what selected schedules would generate.

Proposals	**EU Greens**	**Global Redistribution Advocates**	**Oxfam**	**Zucman**
Schedule (Marginal rates above each threshold)	1.7% > 3M			
	2.1% > 5M	2% > 5M	2% > 5M	
	3.5% > 10M	6% > 100M	3% > 50M	
		10% > 1 billion	5% > 1 billion	2% > 1 billion
Revenue (% of GDP)	**1.3%**	**2%**	**1.3%**	**0.2%**
Revenue (in €)	**210 billion**	**300 billion**	**200 billion**	**40 billion**

A representative survey from 2023 shows that 84% of Europeans support a wealth tax that would finance low-income countries (Fabre et al., 2023).

2. **A global corporate tax**

A harmonized definition of corporate tax rules would put an end to tax evasion by multinationals. Negotiations at the OECD are stalling in their efforts to reach an agreement on global profit taxation. Under the leadership of the African Union, the UN recently launched a Convention on International Taxation (similar to the COPs for climate change), with countries in the Global South seeking to have negotiations conducted at the UN. Colombia will formulate a proposal for a global tax on corporations and the income of the wealthiest individuals.

3. **A tax on financial transactions**

A 0.1% tax on stock and bond transactions and a 0.01% tax on derivatives transactions would raise €57 billion (European Commission, 2011). This tax would also help reduce the activity of a hypertrophied financial sector. Discussions appear to have stalled in the EU, but it is being considered by the task force on international taxation led by France, Kenya, Spain, and Barbados. This task force is also studying carbon taxation (points D and E below).

4. **A levy on aviation and/or maritime**

Ending aviation tax exemptions could generate revenues for the EU of €34 billion (T&E, 2023), corresponding to a carbon price of around €250/tCO_2. While waiting for an agreement on kerosene taxation (which requires unanimity), willing states could implement ticket taxes (with higher rates for business tax) for equivalent revenues. A global carbon price of $100 on maritime fuel would raise $60 billion (World Bank, 2022). At the EU level, revenues would be around €18 billion. Negotiations are ongoing; they will probably result in a lower carbon price, but it is unlikely that the EU will move forward unilaterally.

5. **A global carbon price**

A Global Climate Plan would end climate change and extreme poverty by capping emissions through a carbon market and redistributing revenues in the form of a global basic income of around $50/month. It would collect 2% of global GDP and involve transfers of 1% of GDP from rich countries to poor humans. The African Union is calling for a global carbon pricing regime (AU, 2023), as is von der Leyen , and such a plan could be restricted to ambitious countries (i.e. without the US or OPEC+).

How to allocate resources?

Several possibilities:

1. **Funding Governments**

   Probably the approach preferred by governments in the Global South, this approach raises the question of conditionality: should the money be paid conditional on appropriate use or compliance with certain standards (human rights, climate objectives, etc.)? Any conditionality raises the problem of interference and the fact that local populations risk being deprived of the money if the conditions are not met. Conversely, some of the money would be diverted if it were paid unconditionally. This would harm the popularity of the measure in the Global North and run counter to current practice in development aid. The wisest course would therefore probably be to establish a contract between the EU and each beneficiary country, which would commit to increasing its spending on education, health, and social protection according to a predefined trajectory. If audits reveal that a country is not complying with the contract, the money would return to in-country programs run by a multilateral development agency.[8]

   Pros: Helps develop state institutions. Would be appreciated by governments in the Global South.
   Cons: The money would be less well spent than if it were distributed more locally, and certain groups of people could be deprived of it.

2. **Financing social protection** (International Labour Organization)

   Social protection includes access to essential care (including maternal care), and minimum incomes for children, inactive people (unemployment, disability, sickness) and the elderly. The financing need for social protection in low-income countries is estimated at €72 billion, or 16% of their GDP (ILO, 2020) and two-thirds of their public expenditure (Gethin, 2023).
   The priority is to build national institutions, in conjunction with the social ministries of the countries, to build a culture of transparency and trust in the State, even if the funding is international initially.

   Pros: The ILO has experience in this area (see this database and this report on social protection) and there is a coalition of around a hundred NGOs and trade unions (including the ITUC) in favour of minimum social protection.
   Cons: there are also other needs (e.g. education, the financing of which is more popular in northern countries).

3. **Increase official development assistance.**

   This aid can fund programs such as social protection and can fund states directly. Priority should be given to using multilateral agencies [8] (more neutral and more appreciated by beneficiaries) and targeting low-income countries.
   Pros: It relies on existing institutions with expertise, relationships, and audit capacity. More flexible/comprehensive than social protection.

Cons: International donors often use aid to advance their own agendas (whether in favor of press freedom, trade liberalization, or migration control).

4. **Financing a Basic Income**

With €70 billion, a basic income of €16 per month could be paid to every person aged 15 or older living in a low-income country. This could be extended to other poor regions that are not in a low-income country (such as Bihar and Uttar Pradesh) by halving the amount paid. Such a basic income would combat malnutrition and extreme poverty. This requires deploying infrastructure that can identify and distribute money to each person. The World Bank is currently funding a program in many countries to ensure that each person has an identity (usually biometric), while mobile phones connected to satellite internet could be used as a means of payment.

Pros: An unconditional transfer theoretically reaches the poorest people and leaves no one behind. Furthermore, it allows for better adaptation to the needs of those in need, who will then decide for themselves how to use the money (food, healthcare, equipment, etc.).

Cons: Even if it exists in India, the identification infrastructure has to be built in Africa (this will take 5 to 10 years).

5. **Funding local authorities**

The money could be paid to local authorities: municipality, village chief, etc. Conditions could be required (for example, that there be one woman and one man per locality who would each receive half of the sum; or that the community has a democratic process), again at the risk of interference.

Pros: relies on existing institutions and small-scale solidarity networks (where authorities are more accountable). Allows for the financing of infrastructure (school, road, etc.), which would be more difficult with a basic income.

Cons: can reinforce local inequality to the benefit of the community leader.

6. **Democratic Allocation Mechanism** (Colombian Proposal)

The Colombian government's proposal remains to be defined, but it will allow, on a democratic basis, to distribute the sum using a system of votes and vetoes. I propose here such a method, which is both proportional (each voter decides on the allocation of an equal share of the budget) and consensual (a project opposed by a majority will not be funded), while allowing the delegation of one's vote (for example, a state could delegate its voting rights to its population).

Pros: allows several of the above solutions to be combined and allows global public goods to be financed (vaccination, peacekeeping, etc.).

Cons: If voting rights are initially allocated to states, this is similar to solution 1.

7. **Multilateral funds** (loss and damage, IMF, development banks)

The money could be used to recapitalize various multilateral investment funds, which could then benefit from leverage and borrow much more on the financial markets. These funds make it possible to finance infrastructure (especially large ones) at low

interest rates. These funds involve the IMF (Resilience & Sustainability Trust, Poverty Reduction and Growth Trust), climate action (Loss and Damage Fund, Green Climate Fund) and multilateral development banks (MDBs, in particular the EIB and the EBRD). Regarding climate funds, the EU should finance 30% (this is its *fair share*, Colenbrander et al., 2021). The EU is already financing almost its share of the promised $100 billion, but is still doing nothing on loss and damage. The UN Secretary-General and developing countries are calling for $100 billion per year in funding for losses and damages (UNSG, 2023), although other estimates are higher.[1] The same document calls for exchange rate guarantees (see Persaud, 2023) of $100 billion per year (much less in callable capital,[2] say €3 billion for the EU *fair share*) as well as a recapitalization of the MDBs of $100 billion (say €5 billion per year for 5 to 10 years for the EU).

Pros: corresponds to the current agenda of international negotiations and the demands of the African Union, is the least disruptive solution and is most in line with the existing balance of power between institutions.
Cons: it finances projects that are not always closest to the basic needs of the poorest people, it promotes growth (certainly necessary in these countries) rather than the fight against extreme poverty and it favors multinationals rather than local actors.

Conclusion

Let's assume a budget of €70 billion. Such a budget corresponds to one-third of a wealth tax that would generate €210 billion.

Taking into account technical constraints as well as current institutional dynamics, here is the allocation of resources which seems most relevant:

- €8 billion for multilateral funds: €5 billion to recapitalize MDBs, €3 billion for exchange rate guarantees.
- €62 billion for governments in low-income countries (as well as poor regions of South Asia), an increase of half of their public spending.
- The EU contribution to the loss and damage fund could match the US one: if the US contributes €10 billion, the EU will also contribute €10 billion. Out of the €100 billion in climate finance pledged by the Global North, the US's *fair share* is €45 billion, but it is currently providing only €2 billion. The loss and damage fund would be financed by increased wealth tax revenues (through higher tax rates).

If only one country is prepared to increase its international transfers, priority could be given to multilateral funds (because the amount would probably be too small for direct financing by States).

[1] Cf. Robinson et al., 2021; Fanning & Hickel, 2023; Songwe et al. (2023).
[2] It is not clear from the UNSG document whether the callable capital (what contributing states must set aside) would be €100 billion or whether the guaranteed sums would amount to €100 billion (in which case the callable capital would be 5 to 20 times lower, and the actual amount disbursed potentially zero, given that, even in the worst case, only a small part of the guaranteed sums would be lost due to a change in the exchange rate and would have to be paid out). Pending an expert's response on the subject, we assume the latter.