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Economic Governance for Inequality and the Private Sector

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.[1]

John Maynard Keynes

Enabled by the technological revolution, the world economy has globalized. Yet despite an enormous increase in economic activity and world trade, and a significant reduction in poverty in some regions, inequality between and within countries has increased as economic returns go increasingly to capital rather than to labor, exacerbating social tensions. Addressing this inequality has become a global priority and is the first economic governance challenge discussed in this chapter. We then review the need for international governance and regulation of the business sector in the common interest and raise some general issues about global governance of the economy.

INEQUALITY

One function of governance is to address issues of inequality, as extreme differences create tensions and destroy the social cohesion necessary for stability and security. Income gaps are widening in many countries, while aspirations are growing. Social inequalities lead to apathy, alienation, social unrest, violence and the erosion of trust between individuals and the institutions of governance.[2] Inequality can occur at multiple levels: between individuals, between communities or cultural groups,

[1] This is the starting sentence in Keynes's chapter 24 ("Concluding Notes on the Social Philosophy towards which the General Theory might Lead"), 1936, for the *General Theory of Employment, Interest and Money*. Basingstoke, Palgrave Macmillan.

[2] Bahá'í International Community. 2012. *Beyond Balancing the Scales: The Roots of Equity, Justice and Prosperity for All*, Bahá'í International Community's contribution to the UN Global Thematic Consultation on "Addressing Inequalities," New York, October 12. www.bic.org/statements/beyond-balancing-scales-roots-equity-justice-and-prosperity-all.

between urban and rural areas, and between states. There can be inequality in wealth, in opportunities, in gender, in power, in status, in health and education, etc. There are also distributional issues between the highest and lowest levels, such as between a privileged minority and a deprived majority, or a well-off majority with excluded minorities on the margins. For this reason, average, mean or median statistics can be deceptive and hide significant inequalities.

The role of wealth distribution, including both in-country and global inequality, has emerged as a significant issue for development, with a number of influential books published on the subject since 2009.[3] Measures of public attitudes toward inequality suggest that people both prefer lower inequality than they imagine exists in their society, and underestimate the actual level of inequality. High levels of inequality tend to limit development. The 2030 Agenda, with its aim to achieve greater justice in the world and to leave no one behind, is an expression of the imperative need to reduce inequalities; goal 10 of the Sustainable Development Goals (SDGs) is specifically to *reduce inequality within and among countries*. The mandate for a vital role for global governance in addressing the issue is clear, but different approaches are required when addressing inequality between states, and inequality at the level of individuals within a given community.

This issue is so important that we recommend that a new multilateral specialized agency be created within the reformed UN system specifically to address growing economic inequality and to organize a more equitable distribution of the world's resources. Existing international economic institutions for poverty alleviation, financial system surveillance and trade regulation have failed to address this gap adequately. This will require novel approaches for funding, beyond those already used by institutions such as the International Monetary Fund (IMF) and the World Bank with mixed impact at best, and some options for this are considered in Chapter 12. The following sections address the rationale for and possible scope of such an agency.

If we start with the assumption inherent in the UN Charter and explicit in the Universal Declaration of Human Rights that "all human beings are born free and equal in dignity and rights" and are "endowed with reason and conscience," then equality is a fundamental aspect of what it means to be human. Dignity, reason and conscience are qualities common to every member of the human race. Therefore,

[3] Wilkinson, R. and K. Pickett. 2009. *The Spirit Level: Why More Equal Societies Almost Always Do Better*, London, Allen Lane; Stiglitz, Joseph E. 2012. *The Price of Inequality: How Today's Divided Society Endangers Our Future*, New York, W. W. Norton; Atkinson, A.B. 2015. *Inequality: What Can Be Done?* Cambridge, MA, Harvard University Press; Milanovic, B. 2016. *Global Inequality: A New Approach for the Age of Globalization*, Cambridge, MA, Harvard University Press; Scheidel, W. 2017. *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-first Century*, Princeton, NJ, Princeton University Press.

equality is not something to be created, but is to be reflected in social structures and processes of governance as a matter of justice.[4]

While extreme inequality is clearly seen as unjust (except by some of those at the wealthiest extreme of the spectrum),[5] that does not of course mean that complete equality is the solution. It is often unfairness that is the issue. There are natural differences, whether between people or countries, that should be acknowledged. The concept of justice includes just rewards for talent, effort and accomplishments, and implies equality of opportunity. Differences are accepted if they are justified and earned or are the result of a random process such as a draw or lottery where everyone has an equal opportunity.[6] It is the extremes of inequality that need to be eliminated at both ends of the spectrum.

Inequality between Individuals

While hunter–gatherer societies were generally quite egalitarian, more complex settled societies tended to allow some people to acquire riches at the expense of others, and to perpetuate such differences.[7] The power to govern and to assemble riches often went together. Today, the extreme differences between the "haves" and "have nots" are rooted in a materialistic ideology, social norms and oppressive structures of power and production. In fact, despite progress in reducing poverty in some countries, income inequality has increased in recent decades to levels not seen in over a century, with wealth increasingly concentrated at the top while the poorest get less and even the middle classes see little benefit from growth in the economy. In the United States, middle-class incomes have been stagnant for the last

4 Bahá'í International Community, *Beyond Balancing the Scales*.

5 Many with considerable wealth also consider excessive economic inequality as repugnant and counterproductive. The "Patriotic Millionaires" of the United States, for example, advocate for fair taxes and a livable wage, among other things, with their stated values including the following: "We believe that the trend of growing economic inequality is both bad for society and bad for business. We believe revenue models that rely on human misery should be exorcised from our economy. We believe the government should mandate a liveable wage for all working Americans, rather than relying on 'the market' which has failed to realize that goal over 240 years of American history. We believe a national 'living wage' law will ensure a stable level of aggregate demand, which will fuel our economy more broadly, ushering in a new era of prosperity for all Americans, including rich ones ... We believe our nation's social and economic progress requires significant and constant public investment, and that the wealthy, who benefit the most from our country's assets and institutions, should naturally and gladly pay the greatest share of whatever taxes are needed to support that investment" (see: https://patrioticmillionaires.org/our-values/).

6 Starmans, Christina, Mark Sheskin and Paul Bloom. 2017. "Inequality Isn't the Real Issue," *Wall Street Journal*, April 29–30, p. C3.

7 See, e.g., recent research linking sex equality also to more egalitarian hunter–gatherer societies, before the emergence of agriculture: Dyble, M., G.D. Salali, N. Chaudhary, A. Page, D. Smith, J. Thompson, L. Vinicius, R. Mace, and A.B. Migliano. 2015. "Sex Equality Can Explain the Unique Social Structure of Hunter–Gatherer Bands." *Science*, Vol. 348, No. 6236, May 15, pp. 796–798.

40 years.[8] This has provided fertile ground for populist messages and the rejection of those considered to be elites or part of traditional political establishments.

In addressing the issue of inequality between people individually or in social or cultural groups, most of the focus has been on poverty in economic terms as differences in wealth, along with all the other inequalities in health, education, employment and opportunity that result from poverty. However, poverty, in our current global circumstances with significant accumulated global wealth, is an issue of justice. In a world without absolute scarcity, with adequate wealth to meet everyone's needs and enough food to feed everyone, it is unjust that people should go hungry or lack the basic necessities of life. The problem is one of equitable distribution, which effective systems of governance at different levels should be able to address, starting in each community and going up as necessary to the global level.

Some countries, particularly China and to some extent India, have done much to reduce extreme poverty, but much poverty still remains around the world, including in the most advanced economies. Despite the great growth in the world economy, poverty is actually increasing in some countries, often associated with conflict, government mismanagement or even climate change and natural disasters. Even wealthy countries that have minimized the interference of government in the economy for ideological reasons and implemented austerity programs to cut back on government expenditures, have seen poverty increase and the middle classes stagnating or regressing.[9] Similar effects have been produced by austerity measures necessitated by wasteful spending in the past and other causes of excessive debt burdens, requiring IMF bailouts when the authorities can no longer fund their budgets from revenues or by borrowing at reasonable rates from the markets. There is thus no guarantee that poverty will not increase in the future.

In the corporate search for ever-increasing profit and productivity, supported by technological innovation, workers are being squeezed out, with chronically high unemployment in many countries pushing more people into poverty, and fewer opportunities for young people, destroying social cohesion and the hope of younger generations. This could contribute to major planetary crises.[10] There are warnings that further automation, artificial intelligence and smart systems could replace many human occupations in the years ahead, creating further substantial unemployment, leading the OECD and the Bank of England's chief economist to highlight the challenges posed by the "technologically unemployed." Globalization has not

8 Krause, Eleanor and Isabel V. Sawhill. 2018. "Seven Reasons to Worry about the American Middle Class." Washington, DC, Brookings Institution, Social Mobility Memos, Tuesday, June 5. www.brookings.edu/blog/social-mobility-memos/2018/06/05/seven-reasons-to-worry-about-the-american-middle-class.

9 For reports and background materials on poverty, see the Office of the High Commissioner on Human Rights, Special Rapporteur on extreme poverty and human rights, www.ohchr.org/en/issues/poverty/Pages/SRExtremePovertyIndex.aspx.

10 Turchin, Peter. 2010. "Political Instability May Be a Contributor in the Coming Decade." *Nature*, Vol. 463, No. 7281, p. 608. DOI: 10.1038/463608a.

benefited everyone equally and has left many on the sidelines, embittered and drawn to populist rhetoric.

With all the emphasis on eliminating poverty, much less attention has been given to the other end of the spectrum, extremes of wealth. Yet the two are intimately related. Even where inequality at the rich end of the spectrum is measured, it is usually income inequality, not wealth inequality, where the disparities are more pronounced.[11] Levels of inequality have varied throughout history; in the period leading to the industrial revolution despotic leaders and economies based on slavery were not uncommon. With the arrival of new technologies and an acceleration in the pace of economic growth the standard of living rose, but income disparities persisted. Some narrowing of inequality between countries co-existed with generally high levels of inequality within countries. And global inequality, a concept used in recent decades that looks at income distribution for the world's entire population cannot be characterized as anything other than "sky high" or unacceptably high. Without doubt, inequality has become a source of political and social instability.

Inequality in income and wealth between individuals has been increasing rapidly for a few decades in the great majority of countries. Even though countries such as China and India have made progress in reducing extreme poverty, income and wealth disparities have widened. In economies where the financial sector has become dominant, wealth and earnings have increased at the top despite the failings of the industry during the 2008–2009 financial crisis, leaving unbelievable quantities of wealth in the hands of a privileged minority. This wealth concentration is clearly a consequence of the present economic system.[12] Most of the wealth created by development and resource exploitation in recent decades has gone to the already-rich as increases in capital, asset value and dividends, while wages for labor have stagnated and little or nothing has trickled down to the poor. The present global economic system selectively bestows advantage on the privileged few, while leaving the masses to make do with a small fraction of the world's resources.[13,14]

11 Davies, J.B. and A.F. Shorrocks. 2000. "The Distribution of Wealth," in A.B. Atkinson and F. Bourguignon (eds.), *Handbook of Income Distribution*, Vol. 1. Amsterdam, Elsevier, pp. 605–675.

12 Manning, Patrick. 2017. "Inequality: Historical and Disciplinary Approaches," AHA Presidential Address. *American Historical Review*, Vol. 122, No. 1, 1 February, pp. 1–23.

13 Bahá'í International Community, *Beyond Balancing the Scales*.

14 Reporting on the concentration of wealth in the United States, the *Washington Post* (February 9, 2019) highlights the conclusions of a recent paper by Gabriel Zucman, a University of California at Berkeley economist, who estimates that the 400 richest Americans, accounting for the top 0.00025 percent of the population, have tripled their share of the national wealth since the early 1980s and their net worth now exceeds the net worth of the 150 million Americans in the bottom 60 percent of the wealth distribution, whose share of the nation's wealth fell from 5.7 percent in 1987 to 2.1 percent in 2014. www.washingtonpost.com/us-policy/2019/02/08/wealth-concentration-returning-levels-last-seen-during-roaring-twenties-according-new-research/?noredirect=on&utm_term=.5b01d209ea95.

The concentration of wealth also leads to a concentration of power, sometimes directly when wealthy individuals run for political office, or less directly through control of the media and manipulation of public opinion, financing of political parties and campaign contributions, or corruption of political leaders and legislators.[15] Political power also creates possibilities to amass wealth that may be difficult for many to resist, resulting in turn in both a desire to cling to power and the means to do so. The recent rapid concentration of extreme wealth among a tiny fraction of the world's population, and their desire to protect their advantages, create strong forces to maintain the status quo that allowed them to reach the top, while resisting the transformation necessary to reduce inequalities, achieve social cohesion and move toward environmental sustainability. The social contract that brought significant progress in the second half of the twentieth century has been eroding, with inequality increasing again.[16] These same forces have fostered a nativist and populist backlash against progressive or socially minded elites (including scientific and other "experts"), carefully cultivated by unscrupulous leaders intent on eroding democracy to achieve and hold on to power, or simply the status quo. The legitimate frustrations of those who have been left behind or marginalized by economic globalization are channeled ironically to reinforce the present system and to block or reverse efforts for a more just, diverse and sustainable society.

Most economists consider that increasing disparities in income are normal, and the present economic system tends to allow corporations to achieve monopoly positions if the government does not intervene to maintain a reasonable level of competition. The lack of international governance in this area allows large multinational corporations to escape from much national control and to corner major shares of global markets. Shareholders demand a return on their investment, fund managers search for the placements with the highest returns and too many managers see the end of high profitability justifying any means, as perennial corporate scandals have demonstrated across the world. Growth is often promoted as the solution to inequality, as additional wealth is supposed to trickle down and benefit everyone, except that in practice this does not happen when the incentive is to increase productivity with technology, focus on returns on capital and reduce expensive labor inputs. Today's economic system, with its unbalanced

[15] A recent study by Martin Gilens and Benjamin Page found that wealthy elites in the United States have significant influence on national policy, while the middle classes and civil society have little or none (leading some to qualify the country as an oligarchy): "[m]ultivariate analysis indicates that economic elites and organised groups representing business interests have substantial independent impacts on US government policy, while average citizens and mass-based interest groups have little or no independent influence." Gilens, M. and B. Page. 2014. "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens." *Perspectives on Politics*, Vol. 12, No. 3, pp. 564–581. DOI: 10.1017/S1537592714001595.

[16] UNRISD. 2016. *Policy Innovations for Transformative Change: Implementing the 2030 Agenda for Sustainable Development*. UNRISD Flagship Report, Geneva, United Nations Research Institute for Social Development. www.unrisd.org/flagship2016.

focus on growth and consumer culture, is a fundamental cause of social and environmental unsustainability.

Different governance approaches are needed to address extreme wealth from those needed to reduce poverty. Laws can be designed to prevent an excessive accumulation of wealth, including the use of progressive income taxes aimed at improving equity. Tax authorities may also wish to consider some form of wealth tax for very high incomes, particularly in countries with a highly skewed income distribution.[17] Further incentives to encourage voluntary giving and philanthropy would be a useful complement. Also, given the proven ability and motivation of those with wealth to hide it in tax-free havens, only a globally coordinated approach harmonizing national legislation around the world can address this problem.[18] Beyond such necessary international measures, in application of the principle of subsidiarity, reducing inequality within countries should generally be a national responsibility, except, for example, where it reaches an extreme that affects fundamental human rights, is the result of extensive and uncontrolled corruption, or results from fundamental failures of governance or dictatorial rulers. In such cases, international legislation should authorize oversight by international mechanisms in the internal affairs of such countries.

Inequality between States

One of the challenges in any system of governance is how to deal with extreme inequalities between the subjects being governed, in this case between the states making up what has today globalized into a world system. Close to 60 states with a total population of more than 1 billion are falling behind, if not actually failing, creating chaos and suffering at home and driving economic migration.[19]

The range of diversity between states is enormous, whether in terms of population, surface area, size of the economy or natural resources. However, the differences are not always the same across all of these dimensions. The most and least

[17] According to Paul Krugman, commenting on a proposal put forward by economists Emmanuel Saez and Gabriel Zucman, a 2 percent annual tax on net worth in excess of US$50 million and an additional tax of 1 percent on wealth in excess of US$1 billion would only affect 75,000 households in the United States, and "because these households are so wealthy, it would raise a lot of revenue, around US$2.75 trillion over the next decade." He then asks: "Wouldn't it hurt incentives? Probably not much. Think about it: How much would entrepreneurs be deterred by the prospect that, if their big ideas pan out, they'd have to pay additional taxes on their *second* US$50 million?" Krugman, Paul. 2019. "Elizabeth Warren Does Teddy Roosevelt." *New York Times*, January 28, www.nytimes.com/2019/01/28/opinion/elizabeth-warren-tax-plan.html.

[18] The G7 has agreed in 2019 that there should be a global minimum corporate tax rate: www.ft.com/content/b74e8398-a944-11e9-984c-fac8325aaa04.

[19] See, for instance, the insightful discussion provided by Paul Collier in *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*, Oxford, Oxford University Press, 2007.

populous UN member states are China and Tuvalu, with 1.39 billion and 11,000 people respectively. The largest land area is 17 million km^2 in Russia, versus 2 km^2 in Monaco. However, Kiribati, with a population of 108,000 on a land area of 811 km^2 spread over 21 inhabited and 12 uninhabited islands, has a sea area, including its exclusive economic zone, of 3.5 million km^2. Economically, China with a GDP of US$12 trillion contrasts with Tuvalu with a GDP of US$42 million. Before Tuvalu developed its fisheries resources, its most important export revenue earner was postage stamps for collectors.

Inequality between nations is often defined in economic terms or levels of development. For decades, the “developed” or “industrialized” countries have tried to help the “least developed” or “developing” countries, without much success, since other factors, such as debt repayments and disadvantageous terms of trade, have meant that financial flows out of poor countries have often been greater than foreign aid and foreign direct investment into them. Some estimates suggest that, in the present system, it may take centuries for poorer countries to catch up with richer countries, something that Thomas Homer-Dixon has termed “the dirty little secret of development economics.”[20]

This situation of inequality between countries is exacerbated and further entrenched by rigid concepts of national sovereignty. Current ethical approaches are not consonant with, for example, a Rawlsian approach of “original position” behind a veil of ignorance, where we do not know and have no control over the circumstances of our birth. Human rights protections and relative wealth are conditioned by country of birth, and while everything else is globalized, the free movement of people is not allowed. Principles of justice are still primarily conceived as applying inside a sovereign state but not beyond. A state is responsible for its own citizens, but for others, charity is all that is usually called for. Countries are defined as equally sovereign and equally responsible for advancing their own populations’ interests, often ignoring the question of whether they actually have the capacity to do so. Furthermore, there are domestic biases in which governments favor the elite or wealthy factions in their society that put them and keep them in power, which further compounds problems of (global) inequality, and the promotion of too narrow conceptions of “national” interest favoring the upper echelons in many countries, who are usually benefiting significantly from financial globalization.[21]

Inequality in wealth between countries is clearly a domain to be addressed through international governance, as it destabilizes the international system, entrenches debilitating injustice and blocks the realization of the fundamental well-being of vast numbers of people. Development aid by itself, as currently

[20] Homer-Dixon, Thomas. 2006. *The Upside of Down: Catastrophe, Creativity, and the Renewal of Civilization*, Toronto, Vintage Canada.

[21] Cabrera, Luis. 2017. “Global Government Revisited: From Utopian Dream to Political Imperative,” *Great Transition Initiative* (October). www.greattransition.org/publication/global-government-revisited.

practiced, is seldom the solution, and has generally failed to solve the problem over 70 years of effort. The root causes need to be addressed. One is the continuing effects of colonial systems of exploitation, where primary products from poor countries are exported at highly volatile and declining prices when all added value is created in importing countries, or by intermediaries in emerging market countries.[22] Cheap labor is similarly exploited, often in unhealthy conditions. If attempts are made to offer a living wage, production can simply be shifted elsewhere. If the poor migrate in search of better opportunities, they face opposition and rejection by nation-states defending their territorial borders and by nativist populations rejecting diversity. Another cause is the impact of agricultural subsidies in wealthy countries, usually in terms of price and output supports or other production-based measures of little real benefit to rural populations, which artificially lower the prices of agricultural exports from poorer countries.[23] In extreme cases, the dumping of subsidized excess production on the world market undercuts poor farmers around the world.

Another source of inequality between countries is the very unequal distribution of natural resources. Countries are inherently separate and unequal. Some have mineral resources, others agricultural potential or fisheries, or perhaps natural beauty as a basis for a tourism industry, while others may have little that is marketable. Those endowed with valuable resources may become wealthy without any particular effort on their part, while others without many resources struggle to meet basic needs. Indeed, some countries may not be viable at all in a longer-term perspective, in part due to very different resource endowments.[24] There is also the heritage left by colonizing powers creating mischief among nations by arbitrary (not to say irresponsible) border demarcations.[25] Countries may have vast untapped natural resources, but not the knowledge and capital to develop them, or there may be deficiencies in the quality and capacity of national governance. Their resources cannot be monetized because of mismanagement, lack of trust,

[22] Commodity dependence is generally negative for development, showing the need to diversity away from commodities. UNCTAD/FAO. 2017. *Commodities and Development 2017*. New York and Geneva, United Nations. https://unctad.org/en/PublicationsLibrary/suc2017d1_en.pdf.

[23] These payments amounted to US$257 billion in the 30 OECD countries in 2003 and had risen to some US$320 billion over the period 2015–2017. Tangermann, Stefan and Augusto López-Claros. 2004. "Agricultural Policy in OECD Countries Due for Reform," OpEd, November. http://augustolopezclaros.com/wp-content/uploads/2018/06/OpEdNov2004_IntlPub_A4.pdf?x28456.

[24] Collier, *The Bottom Billion*.

[25] Easterly, William. 2006. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, New York, Penguin Press. Easterly writes: "There are three different ways that Western mischief contributed to present-day grief in the Rest. First, the West gave territory to one group that a different group already believed it possessed. Second, the West drew boundary lines splitting an ethnic group into two or more parts across nations, frustrating nationalist ambitions of that group and creating ethnic minority problems in two or more resulting nations. Third, the West combined into a single nation two or more groups that were historical enemies" (p. 291).

institutional weaknesses or corruption (see Chapter 18). Finally, there are countries that suffer from the "resource curse," where the money from resource development does not benefit the generality of the population but goes to support autocratic governments, finance corruption and fund civil wars. One challenge for global governance will be to ensure that the distribution of the products of economic activity is much more equitably regulated. Vast private sector resources may potentially become available through public–private partnerships under the aegis of a new, credible organization with a General Assembly mandate addressing global inequality that could guarantee and protect the interests of all parties.

As we have already explained, rapid population growth is both a cause and a consequence of poverty. Where children are the only form of social security available, or may be needed to herd animals, work the land or carry water, the incentive is to have as many as possible, especially if high infant mortality reduces the chances that all will survive to be useful. This poverty trap is itself the result of inequality. Enough of modern medical science has been shared globally to lower early childhood death rates and to control epidemics, but not enough wealth has been shared to reduce poverty, offer family planning services, establish some social security and achieve universal education, especially of girls, which would lower birth rates. This is what maintains high population growth rates among the poorer populations, especially (but not exclusively) in Africa. If these issues of inequality were addressed effectively, the high birth rate could be expected to drop more rapidly as it has in the rest of the world, and the problem of excessive population growth would be much attenuated.

States are also responsible for some share of the world's biodiversity and may not always have the capacity to care responsibly for something that is partly or mostly of global importance. Small island states in particular, because of the nature of evolutionary processes on islands, have some of the highest numbers of endemic species per capita in the world, sharing tiny land areas with their human populations. Yet microstates cannot easily attain all the technical competencies and financial means necessary to manage such responsibilities. One role of global governance should be to respond to the global crisis of biodiversity loss and species extinctions with assistance when and where it is needed. In this as in many other areas, the common interest is not evenly distributed around the world. Effective global governance would assure that all the necessary voices would be heard and taken into account in global decision-making processes, and human, technical and financial resources collected according to capacity and distributed according to need.

Addressing inequality is complicated by the challenges of planetary sustainability, as defined, for example, in the SDGs. It will not be enough simply to raise the income level of the poor and deprived, whether countries or individuals. The latest science shows objectively that it is impossible to give everyone a high material standard of living, as defined today by the levels of consumption in advanced materialistic societies, without overusing natural resources and exceeding planetary boundaries. Countries that are currently rated highly on measures of human well-being also break environmental limits, and those using resources within planetary boundaries are unable to meet the needs of their citizens, while some fail on both counts as dysfunctional over-consumers.[26] A fundamental transformation is needed to address global inequality in a sustainable way, with "over-consumers" changing their lifestyles and curbing excessive consumption to free up resources for those in need. This applies to both states and individuals.

To address the very dramatic current inequalities among states, deeper regional and global integration will likely be required: "[t]he ultimate goal of integration would be the creation of regional and global institutions that promote the interests and rights of all. Such higher-level institutions would also offer mechanisms to challenge repression and rights violations at the national level."[27] We suggest one such higher-level institution in the section on a new UN Agency for Inequality.

The European Union provides an example of states in a region addressing national inequality as a necessary accompaniment to allowing the free movement of people and goods (see Chapter 3). The wealthier countries provide structural funds for infrastructure and other projects to help less developed members catch up, in exchange for meeting common standards and regulations. The system is far from perfect, but it shows what is possible between states. And it has contributed to reducing inequality between countries within the Union, while also delivering some of the lowest Gini coefficients in the world for many members of the EU.[28]

NARROWING INCOME INEQUALITY

Lindert and Williamson raise an interesting and pertinent question with considerable relevance to the ongoing debate on the impact of globalization on inequality.[29] How unequal would a fully integrated world economy be? Imagine a world economy with a single currency, few if any barriers to trade, free mobility of labor and capital, and let's ask ourselves: "would such an economy be more unequal than the world of today?" The answer to this question has two dimensions. First, one must

[26] O'Neill, Daniel W., Andrew L. Fanning, William F. Lamb, and Julia K. Steinberger. 2018. "A Good Life for All within Planetary Boundaries." *Nature Sustainability*, Vol. 1, No. 2, pp. 88–95. https://doi.org/10.1038/s41893–018-0021-4.

[27] Cabrera, "Global Government Revisited."

[28] The Gini coefficient, developed by the Italian statistician Corrado Gini in 1912, is a variability measure designed to represent the income or wealth distribution of a group of people, such as a nation's inhabitants. It is the most commonly used measure of inequality. The coefficient is typically normalized to be between 0 and 1, with higher scores signifying higher levels of inequality.

[29] Lindert, Peter H. and Jeffrey G. Williamson. 2001. "Does Globalization Make the World More Unequal?" Cambridge, MA, National Bureau of Economic Research, NBER Working Paper No. 8228, April. www.nber.org/papers/w8228.

note that today we have large integrated economies – the United States, Japan, the EU – that are larger in size than was the global economy in 1950. These economies have Gini coefficients (47 for the United States, a lower 32 for Japan) that are much lower than the corresponding Gini coefficient for world inequality reported by Bourguignon and Morrisson (64)[30] or the higher (68) Gini calculated by Milanovic for 2010 on the basis of the latest purchasing power parity (PPP) exchange rates.

Globalization and other factors have not only contributed to a process of rapid convergence among high-income globalizing nations but have also delivered much lower levels of inequality within these countries than currently prevails in our barrier-filled world. A skeptic might argue that a barrierless global economy would still likely be characterized by large income disparities, reflecting the sharply different stages of development in places such as China, Africa and Latin America – witness the income disparities within the 50 states of the United States or the 28 members of the European Union. However, an important lesson from the past two centuries is that what matters most for economic and social transformation is what happens *at the margin* where proximity facilitates comparisons. As more countries adopted policies that facilitated their integration to the global economy, one would likely see set in motion the same class of convergence forces that have been in operation during the past century in the developed world. And this observation may contain within it an important piece of the puzzle as to how to reduce global income disparities in the future.

The second dimension concerns the speed with which growing inequality can be halted and reversed in a world where the injustice of inequality is apparent to everyone, creating social instability. When the top 10 percent of the world's population receive 58 percent of the world's income or, alternatively, when the bottom 60 percent do not even receive 10 percent of the world's income, we know that we have a serious problem of income distribution. It does not matter very much, in fact, if income inequalities might have "turned a corner" in the past decade because of feverish growth rates in India and China and other parts of the developing world. The current *levels* of inequality are unacceptably high and we cannot simply say to ourselves: within another 100 years or so, we will have returned to more socially acceptable and politically sustainable levels of inequality, closer to those seen in the nineteenth century. (It took Japan, starting in the 1870s, 100 years to catch up with the United Kingdom and other rich industrial democracies). The question is: what can we do to accelerate the process whereby income disparities are attenuated and we move to a more egalitarian world?

The answer to this question has many parts. First, it is necessary to say that the problem we face is one that admits solution; countries subject to some of the same forces shaping the global economic environment during the past century have

[30] Bourguignon, Francois and Christian Morrisson. 2002. "Inequality Among World Citizens." *American Economic Review*, Vol. 92, No. 4, September, pp. 727–744.

radically different levels of within-country inequality. The Nordic countries, for instance, are among the most competitive in the world, have managed to exploit effectively the opportunities provided by globalization, and yet have made considerable progress in creating more egalitarian societies – they have the lowest Gini coefficients in the developed world.[31] The relationship between economic growth and inequality may be a complex one, and there may be forces affecting the direction of inequality that have an exogenous character, but there is little doubt that inequality is also affected by policy, and policies are shaped by governments, sometimes increasingly within frameworks of international cooperation.

One way to frame this discussion is in terms of the future of globalization. Because globalization is mainly being driven by technological and scientific innovation, the profit motive and the uncoordinated actions of myriad players in the global economy, as well as what Thomas Friedman calls the democratization of technology, finance and information, it is very probably an irreversible process.[32] Policy-makers are not likely to be any more successful at stopping it than they have been at controlling the flow of capital across national boundaries. Thus, we would agree with those who suggest that all that can be hoped for is more effective *management* of the globalization process. In practice this would mean, for instance, reorienting government spending priorities – particularly in the developing world – so as to put greater emphasis on the protection of the economically vulnerable and other disadvantaged groups in society; and making sure that there are programs in place for temporarily displaced workers in declining industries – one of the inevitable consequences of a rapidly changing global economy – including those aimed at training and providing new skills. More generally, greater efforts need to be made in the developing world to build the social safety net institutions that were put in place in virtually all the developed countries during the twentieth century and that have been a key element behind the creation of more egalitarian societies.

Boosting the share of education budgets to broaden the range of opportunities available to women is likely to be a central component of this process, given the overwhelming scientific evidence linking female education and literacy to reductions in mortality rates for children, fertility rates and levels of poverty.[33] Benjamin Friedman observes:

> More widespread female education leads to fewer births per woman, not only because more educated women normally have more information about birth control but also because education creates alternative opportunities that are often

[31] The Gini coefficients of Denmark, Finland, Iceland, Norway, and Sweden hover around 25–27.

[32] Friedman, Thomas L. 1999. *The Lexus and the Olive Tree: Understanding Globalization*, New York, Farrar, Straus and Giroux.

[33] On these and related questions, see López-Claros, Augusto and Bahiyyih Nakhjavani. 2018. *Equality for Women = Prosperity for All: The Disastrous Crisis of Gender Inequality*, New York, St. Martin's Press.

more attractive than immediate childbearing. The resulting lower fertility apparently constitutes one of the principal ways in which the distribution of income and wealth affects economic growth in low-income countries.[34]

Intensified efforts are needed by donor governments and nongovernmental organizations (NGOs) engaged in assisting the developing world to encourage greater democracy and participation, to make people feel they are empowered, willing and knowledgeable participants in the development process. Pushing for more responsible behavior on the part of large global corporations vis-à-vis the environment, working conditions for their employees and as regards their relations with host governments would all be desirable components of a strategy aimed at better management of the globalization process.

While these points all sound ideal, the skeptic might ask: who will pay for all of these initiatives? The answer is twofold. First, the developing countries themselves, hosts to billions of people who feel left behind by the locomotive of globalization, can do a great deal more to improve economic management and to better use available resources. According to the World Bank's World Development Indicators, the emerging markets and developing countries, home to virtually all of the extremely poor, illiterate and malnourished people in the world, spend US$545 billion on their militaries every year. For many of these countries, more money is spent on the maintenance of military establishments every year than on health and education combined.[35]

That developing country governments bear a heavy burden of responsibility for the plight of the poor and the widening of income disparities does not exempt the donor governments – mainly in the industrial world – from their own share of culpability. First, wealthy countries' commitment to assisting the developing world is much weaker today than at any time in the postwar period. To cite a well-known example: the United States provided close to 3 percent of gross national income (GNI) in development assistance in 1946; by 2017 this figure had declined to approximately 0.05 percent of GNI or, proportionally, about 60 times less.

[34] Friedman, Benjamin M. 2005. *The Moral Consequences of Economic Growth*, New York, Alfred A. Knopf.

[35] There are just too many examples in the developing world that resemble the case of a relatively small country in Latin America that, during the 1990s, spent several hundred million dollars modernizing its air force. Not only is the figure painfully large in relation to the size of its economy, but the expense entailed a much larger claim on the budget over the next decade, because of the need to service the associated military debts, as well as ongoing expenses for maintenance, spare parts and training, all for a project with virtually zero social benefits. It boggles the mind to think how many hospitals could have been supplied, schools built and children provided with access to the Internet for the same sums. It is difficult to disagree with George Soros when he states: "By far the most important causes of misery and poverty in the world today are armed conflict, oppressive and corrupt regimes, and weak states – and globalization cannot be blamed for bad governments." Soros, G. 2002. *George Soros on Globalization*, Oxford, Public Affairs Ltd., p. 16.

According to the OECD, the rich industrial countries annually spent on average over the period 2015–2017 about US$317 billion subsidizing their agriculture and about US$141 billion in foreign aid.[36] Subsidies to relatively well-off farmers in the industrial world distort the markets for agricultural commodities and impose a heavy financial burden on farmers in the developing world. Second, what little aid is provided is often misspent, with little to show for it in terms of improved policies, living conditions and so on.[37] For this reason (and others) we also put a heavy emphasis on the significant enhancement of international anti-corruption efforts and institutions (see Chapter 18). Thus, the scope for improvements would appear to be enormous in both the volume and the efficiency of wealthy country aid flows and to support policies and institutional innovations that will help reduce income disparities.

But, beyond this, there are other instruments that we are not making use of – policies that, if implemented, could go a long way toward reducing the extremes of wealth and poverty within the existing economic system.

POLICIES AIMED AT HELPING REDRESS INCOME INEQUALITY

Countries that have managed to attain lower levels of income inequality within their national boundaries, such as the Nordic nations, Japan, France, Austria, the Netherlands, Slovenia, Slovakia, the Czech Republic and other members of the European Union, to name a few, have actively used progressive taxation policies as an instrument of redistribution. There is no doubt that this is one of the more powerful tools at the disposal of policy-makers. The nation's budget is perhaps the largest pool of resources available in an economy, and governments typically have a chance, once a year, as the new budget is being prepared, to embed within it a range of national priorities, one of which can be to narrow the income gap – to boost the safety net that protects more vulnerable groups in society, to tax the income of high earners, to spend more on education and training, public health and so on. Different countries will have different priorities, depending on their current circumstances, where they are located along the income distribution spectrum and what

[36] The aid figures for 2017 come from the OECD and comprise total Official Development Assistance (ODA) by the Development Assistance Committee's 29 members. This is the most reliable measure of aid and country-by-country numbers, and may be obtained from www.oecd.org. By a wide margin, the most generous countries are Luxembourg, Sweden, Norway, the United Kingdom, and Denmark. Moreover, by a wide margin, excluding relatively recent new entrants in Eastern and Central Europe, the least generous are the United States, Italy, Portugal, Korea and Spain.

[37] See Alesina, Alberto and David Dollar. 1998. "Who Gives Foreign Aid to Whom and Why?" NBER Working Paper No. W6612, June. See also the paper by Alesina, Alberto and Beatrice Weder, "Do Corrupt Governments Receive Less Foreign Aid?" *American Economic Review*, Vol. 92, No. 4, pp. 1126–1137, which finds no evidence that corrupt governments receive any less aid than countries with good policies and honest governments.

the preferences of voters are as manifested through the democratic process. Not all countries may be able to afford the high levels of social protection provided in the Nordic countries, with the associated high tax rates.

There are legitimate concerns about the kinds of incentives that can sometimes be unleashed when policies are extreme in some way. Ten years ago African countries had the highest tax rates on companies in the world, by a significant margin. Indeed, tax rates were so high that businesses found it more profitable to go underground, to become informal or to simply evade paying taxes, operating beyond the margins of legality. Tax collection levels in these countries were among the lowest in the world, severely undermining the ability of the state to generate enough revenue to fulfil essential social functions. Taxes on labor in some countries are so high that they discourage firms from hiring and the country ends up with higher rates of unemployment than would be the case under a more reasonable tax regime. Therefore, care must be taken not to implement policies that have exactly the opposite of their intended effects – this happens frequently across the world. Good intentions sometimes get kidnapped by attachment to incoherent policies, misguided ideologies or corruption and inevitably the people suffer, sometimes dramatically, as has happened in Venezuela in recent years. Over the past decade tax rates in African countries have come down and this, on the whole, has had a salutary effect on incentives and tax revenue.

The Nordic countries, with among the highest tax burdens in the world, are a special case. They have the lowest levels of corruption in the world. The taxes collected by the state are not leaked to offshore bank accounts of public officials or spirited away in some other fashion. The revenue collected is channeled back into the economy through high spending on education, on research and development, on boosting innovation capacity and investing in the modernization of the countries' infrastructure. This has contributed to the development of a virtuous cycle of development, where businesses and civil society largely trust their governments to use the taxes collected for the public good and, therefore, are willing to pay them – rather than, as happens in countless other countries, spending time and effort devising creative mechanisms to avoid paying the taxes due.

We live in a world in which one's prospects in life are very much a function of the nationality of our parents and, therefore, where we were born, which is, of course, a completely accidental event. If my parents are Norwegian, I will have a life of good health and opportunity, I will receive an excellent education and my future will be generously provided for because, among other things, the government has wisely invested more than US$1 trillion of petroleum revenues in a Wealth Fund, the primary purpose of which is to ensure that the state is able to fulfil its obligations to future generations. And there are only 5 million Norwegians in the world! If I am born in Chad, Burundi, Sierra Leone or one of dozens of other sub-Saharan African countries, or I am one of several hundred million Indians living below the poverty line, I will have a life of onerous limitations. I may not make it to age one because of sky-high infant mortality rates, or I may become part of the close to 815 million people suffering from malnutrition across the world. Because of the incidence of early childhood diseases my IQ, on average, will be lower than that of children in Sweden, Singapore, Japan or South Korea and thus I will be limited in a number of other ways. Most people would not disagree with the statement that there is something profoundly unjust in this state of affairs.

One way to address this problem would be to provide what is called a "universal basic income" to every human being, as a right of citizenship, independently of a person's particular circumstances.[38] One could argue, on purely ethical grounds, that every human being should have access to an adequate caloric intake that will ensure the avoidance of hunger, to essential public health services independently of one's level of income, to free education at least through secondary school, to shelter to avoid homelessness and so on. Indeed, many countries, particularly wealthy ones, already provide key elements of this bundle of goods, but this is done in a haphazard way and largely as a matter of public policy, not because these basic forms of support are seen as a right of citizenship, as something that one is entitled to because one is a member of the human race.

There is a fascinating recent case study of a Native American tribe in North Carolina on whose reservation a casino was built. The casino generated some tax revenue and the authorities decided to split the after-tax profits among the reservation's population – every man, woman and child was entitled to a share. As the casino prospered and the size of the payoff grew, social scientists began to gather interesting data and discovered that the incidence of crime had come down, graduation rates for youngsters had gone up, and the incidence of domestic violence within families had decreased as well, as had rates of alcohol and substance abuse. Youngsters decided to get a college education, others decided to open small businesses and become entrepreneurs. This is not to say that gambling and casinos should be at the center of social policy; this was an accidental feature of this particular reservation. The point is that the existence of something like a universal basic income had all kinds of economic, social and psychological repercussions, all of them positive, suggesting that at least some of the crime, substance abuse, domestic violence and other social dysfunctions are linked to the psychological burdens of economic insecurity. Provide individuals with a reliable safety net, and we will see tangible improvements in social conditions.[39]

In 2016 Switzerland held a referendum on the introduction of a universal basic income. The measure was defeated, partly because of concerns about affordability and the impact on the budget, but also because there is concern in some circles

[38] Bregman, Rutger. 2018. *Utopia for Realists: And How We Can Get There*, London, Bloomsbury Paperbacks.

[39] Lapowsky, Issie. 2017. "Free Money: The Surprising Effects of a Basic Income Supplied by Government." November 12, www.wired.com/story/free-money-the-surprising-effects-of-a-basic-income-supplied-by-government/.

about the implications for people's incentive to work. Would the introduction of such a benefit lead to an increase in idleness and undermine people's desire to work and to be economically productive?

The issue goes far beyond a simple question of income. Everyone has skills and wealth-creating capacities that should be developed, and all should be provided with opportunities to work and to contribute some service to society. Dignity requires that everyone have a place in society, and not be forced to be idle and dependent. Unemployment is a social curse. In a world that can produce all the goods and services we need without creating employment for everyone in traditional occupations, equity requires that the benefits be shared in other ways. However, the poor do not need aid so much as more capacity to generate their own wealth. A fundamental transformation in the economic system is needed so that one priority is ensuring meaningful employment for everyone. This is a major challenge for economic thinkers, and should be enabled as one responsibility of governance, nationally and internationally.

Our own view is that, as a matter of priority, as part of our global efforts to reduce the incidence of poverty and encourage what the World Bank calls "shared prosperity," which means narrowing the extremes of wealth and poverty in the world, we should endeavor to introduce a universal basic income in those countries with the largest numbers of poor in the world. This could be done in stages. We might focus our attention first on those countries that account for the lion's share of the extremely poor, those close to 800 million people currently living on less than US$1.90 per day. This could subsequently be expanded to take care of those falling under a less onerous poverty line; there are, for instance, close to 2 billion people living on less than US$3.20 a day. The issue of affordability is obviously key. There are serious questions linked to implementation as well, but the details are beyond the scope of this discussion (see Chapter 12). It is worthwhile saying, however, that we live in a world in which there is massive waste of budgetary resources. We subsidize energy (gasoline/petrol, electricity, coal, natural gas) to the tune of US$5.3 trillion per year on a global scale (6.5 percent of world GDP according to a 2015 IMF study), resources that worsen income distribution because the primary beneficiaries of the subsidies are the car-driving middle classes, not poor illiterate women villagers. Indeed, according to the IMF, 60 percent of the subsidies end up with the top 20 percent of the income distribution. Furthermore, these particular subsidies make climate change worse. Also we spend trillions of dollars maintaining military establishments and a military-industrial complex because we have not organized our affairs so as to devise mechanisms of collective security, so there is massive overspending on defense, as noted in Chapter 8.

Profit sharing is another idea that should be explored more fully as a means to address income inequality, and could be encouraged by incentivizing legislation or other programs at the national and international levels. It is a way to supplement the income of workers that would align their interests with those of owners. By becoming stakeholders in the enterprise, workers would have powerful incentives to be more productive, to see their jobs not merely as a means to earn a daily living, but also as an investment in the future and as a way to accumulate wealth. This would likely be a policy to be implemented or spearheaded from within the private sector. As can be seen with the plethora of business community-led initiatives on ethical, sustainable, "triple bottom line" and similar values-based principles (see, e.g., the B Corp movement, which includes such companies as Patagonia and Ben and Jerry's Ice Cream), there should be an intensifying global appetite to explore such solutions to address economic inequality issues.

Beyond progressive taxation, universal basic income and profit sharing, there are other public policies that can contribute to empowering the poor and narrowing the income gap. Encouraging a culture of integrity and honesty in the public sector is of prime importance. As we will see in Chapter 18, corruption can have deleterious effects on the development process and severely undermine the ability of the government to deploy resources for socially productive ends. It reduces government revenue and thus adversely affects the interests of the disadvantaged, who seldom have the power to ensure that public policies promote their interests, as is the case with ruling elites. Education and training remain central to poverty alleviation; that we should have close to 800 million illiterate people in the world – amid the highest-ever levels of productive capacity in the global economy – is an eloquent indictment of the extent to which we have failed in helping to narrow the extremes of wealth and poverty.

One final area where there is huge scope to implement policies that could contribute to reducing income disparities concerns the hundreds of discriminations against women that are embedded in the laws (the constitution, the civic code, family law, the labor and tax codes, among others) of countries all over the world.[40] There is ample empirical evidence that a reduction in gender inequality can directly translate into a decrease in income inequality. Women make up more of the vulnerable segments of the population relative to men; since they are overwhelmingly in the lower end of the income distribution, an increase in the gender wage gap would further exacerbate the degree of inequality in the economy. Studies using microeconomic data have generally indicated that female labor force participation has had an equalizing effect on earnings. This has been found to be the case for the United States.[41] At the macroeconomic level, an empirical study from the IMF has

[40] For a comprehensive list of these restrictions, see recent editions of the World Bank's Women, Business and the Law Report, a database covering 189 countries.

[41] Maxwell, Nan. 1990. "Changing Female Labor Force Participation: Influences on Income Inequality and Distribution," *Social Forces*, Vol. 68, No. 4, 1 June, pp. 1251–1266; Pencavel, John. 2006. "A Life Cycle Perspective on Changes in Earnings Inequality Among Married Men and Women." *Review of Economics and Statistics*, Vol. 88, pp. 232–242; Chen, Wen-Hao, Michael Förster, and Ana Llena-Nozal. 2013. "Demographic or Labour Market Trends: What Determines the Distribution of Household Earnings in OECD Countries?" *OECD Journal: Economic Studies*, Vol. 2013, No. 1, 2014.

provided some basis for the link between gender inequality and income inequality. Gonzales et al. uncover three main ways gender inequality leads to worsening income inequality.[42] Gender wage gaps contribute directly to inequality, with gender differences in labor force participation likely to lead to lower wages for women, further increasing income inequality. Finally, there are some enabling conditions that create unequal opportunities for women, for instance unequal access to education, health and finance, leading to greater income inequality.[43]

TRANSFORMING THE ECONOMY

Given the tendency of the present economic system to foster inequality, what might an alternative look like? It is not possible to design a new economic system from scratch, or to create one within a rigid ideological framework. It will have to evolve, with some global characteristics defined in global legislation to create a level playing field for economic actors, and diverse applications at the national and local levels adapted to the conditions of each country and community.

However, if the overall goal is social cohesion and an economic system which is inclusive of all, it is possible to lay out some design criteria. Our economic systems should encourage strong entrepreneurial cultures and capacities for innovation, with robust and vibrant business sectors. A transformed economic system should also be socially just, more altruistic and cooperative in nature, create meaningful employment for all and eliminate poverty.[44] Its aim should be human health and well-being, and moderation, a value that aligns with the SDGs. Additionally, recent social science research has shown that, on the individual level, a more moderate income and lifestyle marked by good social relationships and meaningful work may be more conducive to happiness and satisfaction, with diminishing marginal returns in relation to well-being for lifestyles devoted to excessive wealth accumulation.[45] While growth is still needed in areas affected by poverty, consumption of material goods needs to be reduced in the most advanced economies, which should emphasize growth in intangible areas such as knowledge, culture, science, well-being and spirituality.

[42] Gonzales, C., S. Jain-Chandra, K. Kochhar, and M. Newiak. 2015. "Fair Play: More Equal Laws Boost Female Labor Force Participation." International Monetary Fund Staff Discussion Note SDN/15/02. Available at: www.imf.org/external/pubs/ft/sdn/2015/sdn1502.pdf.

[43] Gonzales, C., S. Jain-Chandra, K. Kochhar and M. Newiak. 2015. "Fair Play: More Equal Laws Boost Female Labor Force Participation." International Monetary Fund Staff Discussion Note SDN/15/02. www.imf.org/external/pubs/ft/sdn/2015/sdn1502.pdf.

[44] Bahá'í International Community. "Valuing Spirituality in Development: Initial Considerations Regarding the Creation of Spiritually Based Indicators for Development." A concept paper written for the World Faiths and Development Dialogue, Lambeth Palace, London, February 18–19, 1998. London, Bahá'í Publishing Trust.

[45] See, for instance, http://home.uni-leipzig.de/diffdiag/pppd/wp-content/uploads/Manuscript-Pursuit-of-Happiness_final.pdf.

Considerable research has gone into the policy innovations necessary for transformative change, as called for in the 2030 Agenda. Such change requires a reversal of the hierarchies of norms and values that subordinate social and environmental goals to economic objectives. In the immediate aftermath of the 2008 global financial crisis, Nobel laureate Amartya Sen wrote that "the question that arises most forcefully now is not so much about the end of capitalism as about the nature of capitalism and the need for change."[46] Sen reminded his readers that in *The Wealth of Nations*, Adam Smith "talked about the important role of broader values for the choice of behavior, as well as the importance of institutions." "But it was in his first book," Sen added, "*The Theory of Moral Sentiments*, published exactly 250 years ago, that he extensively investigated the powerful role of non-profit values. While stating that 'prudence' was 'of all virtues that which is most helpful to the individual', Smith went on to argue that 'humanity, justice, generosity, and public spirit, are the qualities most useful to others.'"

To break the vicious circle that produces poverty, inequality and environmental destruction, change should directly attack the root causes of these problems instead of the symptoms. It should combine social policies directed to marginalized populations; strengthened social care across health, education, infrastructure and social protection; more emphasis on the social and solidarity economy; framing climate change as a social and political issue; increased domestic resource mobilization; and improved national and international governance and inclusive political processes. This will require innovative policies that overcome palliative and compartmentalized approaches and are grounded in normative values such as social justice and sustainability, forged through inclusive political processes, new forms of partnership, multilevel governance reforms and increased state capacity.[47]

While redesigning the economy is likely beyond what global governance should attempt at present, growing income inequality – between countries and within countries – is one major global governance challenge, as exemplified in UN SDG 10. Income gaps are widening in many countries while aspirations are growing and the effects of climate change threaten the poor disproportionately. A large number of countries are fragile and conflict-ridden, becoming dysfunctional as sovereign states while serving as fertile sources of regional instability and out-migration. Climate-induced migration will accelerate, and recipient countries are already experiencing a political backlash from an unmanaged international migration crisis. Hundreds of millions of people are expected to be displaced in coming decades by environmental, social and economic pressures including climate change and sea level rise. This migration challenge is addressed in Chapter 17.

A variety of transformations are needed in governance to address the root causes of inequality. International governance has largely been dominated by an economic

[46] Sen, Amartya, "Adam Smith's Market Never Stood Alone," *Financial Times*, March 11, 2009.
[47] UNRISD, *Policy Innovations for Transformative Change*.

rationale that now – of necessity – should be subordinated to the social and ecological objectives of the 2030 Agenda, for example through sustainable economic policies that are conducive to employment creation and decent work, investment incentives that reward environmentally and socially sustainable activities, social policies that combine social and environmental goals, and environmental norms that rectify social and climate injustices. It is necessary to establish an international regulatory regime that establishes a level playing field and, as necessary, holds transnational corporations and financial institutions accountable so that they respect human rights, obey national tax laws and avoid environmental harm. Beyond public–private partnerships, partnerships are needed with communities and civil society, facilitating the political empowerment and activism of civil society, and providing real options for participation beyond "having a seat at the table."[48]

A UN MANDATE FOR INEQUALITY

Filling this gap in global economic governance requires a multilateral organization with a primary mandate to help redress global inequalities in income and wealth in a way that present international economic institutions for poverty alleviation, financial system surveillance and trade regulation have not been able to do. This will require novel approaches for funding beyond those already being used by institutions such as the IMF and the World Bank with mixed impact at best. Civil society will play an increasing role. Creative approaches to taxation, including certain kinds of global taxes, will also have their place. It should no longer be possible for the very wealthy, whether corporations or individuals, to profit from globalization while at the same time avoiding their social and fiscal responsibilities. To address individual inequality, global standards should be set for social security, minimum wages and employment creation, which will also reduce the motives for crime and corruption.

The heart of the present global system is too weighted toward political and economic power, which reflects historical factors and an unjust distribution of resources that should be corrected rather than enshrined in the structures of governance. In national governments, one solution to balancing different voices has been a bicameral legislature, with one house representative of the different states, cantons or provinces, and the other with representation weighted by population. It is clear that one country–one vote, as in the present UN General Assembly, would be unjust to the most populous states, while even the smallest states have something to contribute to the rich human and natural diversity of our planet. The governance structure is one part of addressing different kinds of inequalities. A bicameral legislative process is one approach that could be adapted to the limited range of responsibilities appropriate to a global government, balancing a voice for each state, some weighted by population, and an opportunity for non-state actors

48 Ibid.

from civil society to contribute to the consultative process. This is discussed in detail in Chapter 4 on the General Assembly, Chapter 5 on the establishment of a World Parliamentary Assembly and Chapter 6 on advisory mechanisms, including a Civil Society Chamber.

More fundamentally, while the system should ensure that the widest range of perspectives is represented and contributing to the legislative debate, there needs to be an important step forward from the current excesses of partisan and representative democracy as it is usually practiced, where legislators consider themselves in quid pro quo relationship with their electorate, fighting for their particular interests, and also in unhealthy fights for power against other political factions. If global governance is to evolve from diplomats (too often) from competing nation-states defending their own interests, to elected representatives searching for the common good while considering the human interests and environmental boundaries of the entire planet, then the legislators should be selected for their competence, their mature experience and their adherence to basic principles and values. They should be united in their search for the common global interest in a consultative process guided by the core values of the Charter, the best scientific advice, careful attention to all the diverse perspectives shared in the debate and the long-term interests of a planetary society. In this way, they should see themselves as the trustees of all humanity rather than representatives of special interests. This will be the most effective way to overcome the inevitable inequalities in any legislative process.

GLOBAL MANAGEMENT OF THE PRIVATE SECTOR

One of the major challenges in designing a system of global governance is in extending its reach beyond the intergovernmental sphere to other areas of the emerging global system of institutions apart from governments themselves. Multinational corporations, for example, and the economic systems within which they operate are often now richer and more powerful than many governments. The economy and its associated world trade and financial flows are perhaps the first dimension of social organization to have globalized so completely, yet it is a domain in which global governance is particularly lacking.[49] This has allowed the private sector to expand beyond any national control or regulation in its goal to maximize profits and its return on investment, and to reduce its tax liabilities. It has increased its power to lobby national governments to protect its own interests and to play governments off each other to obtain the most favorable treatment with the least constraints and regulations. One consequence has been to increase returns on capital and reduce the dependence on labor, with the wealth created going largely

[49] Childers, Erskine with Brian Urquhart. 1994. *Renewing the United Nations System*, Uppsala, Sweden, Dag Hammarskjold Foundation. www.daghammarskjold.se/wp-content/uploads/1994/08/94_1.pdf.

to wealthy owners, shareholders and investors, and not to governments for redistribution as public services, or to the general public as wages. While development has reduced poverty in some parts of the world, the recent economic trend has been to increase inequality within and between countries as discussed above, and to see wealth concentrated among a few super-rich heads of enterprises at the top. This private wealth is largely beyond the reach of any governance mechanism or any goal of more equitable distribution.

National governments generally have a ministry or department of commerce and industry that sets the framework for, and encourages the development of, the private sector and state enterprises as well. It often intervenes to prevent the formation of monopolies or cartels that distort markets, and to ensure good business practices in the common interest. This is an important gap in the present system of international governance, with only the UN Industrial Development Organization (UNIDO) focused on developing countries, informal arrangements with business through the Global Compact, and the World Trade Organization (WTO) outside the UN system dealing with trade issues. Many core aspects of the global economy and business have been left unaddressed because of governments wanting to give the advantage to their own business sector,[50] and powerful lobbying by industries wanting a free hand to maximize their profits by exploiting opportunities around the world, with the ends justifying any means, as with the petroleum industry's denial of climate change.[51] Businesses have too often replaced governments as "colonial" powers looking around the world for resources and cheap labor to exploit.

An ideological approach to minimize government interference in the economy has led both to a reduction in some countries of government regulation of business at the national level, and to powerful lobbies effectively blocking any attempts at governance of the economy internationally. There is no United Nations economic organization. After the Great Depression of the 1930s, the anarchy of national currencies competing in a race to the bottom led to the creation of the IMF to stabilize relationships between central banks in the management of their currencies (see Chapter 15), in the absence of any willingness to consider a single global currency that would no longer be subject to national manipulations. Similarly, the General Agreement on Tariffs and Trade (GATT) and the WTO emerged out of the need to resolve trade disputes amicably rather than by trade wars. Beyond that, the wealthier countries set up the Organization for Economic Cooperation and Development (OECD), and ad hoc discussions of economic policy take place in the G7 or G20 groups of countries, but these are more for voluntary cooperation rather than actual governance. The economy is still an area where the raw exercise of

50 Blackwell, David. 1995. "*Renewing the United Nations System: A Summary*. A review of *Renewing the United Nations System* by Erskine Childers with Brian Urquhart," Dag Hammarskjold Foundation, Uppsala, Sweden, 1994. Global Policy Forum. www.globalpolicy.org/component/content/article/225/32382.html.

51 McKibben, Bill. "Life on a Shrinking Planet," *New Yorker*, November 26, 2018, pp. 46–55.

power is dominant, rather than considerations of fundamental justice, equity or the rule of law in service to shared and sustainable prosperity.

Furthermore, the heritage of the old colonial systems, where the resources of the world were raped and pillaged for the benefit of colonial powers, has often continued in other forms through multinational corporations and governmental and intergovernmental loan programs, with enormous net wealth transfers still taking place out of Africa and other poor developing areas of the world.[52]

National economic systems are already very diverse, ranging from unfettered free enterprise to majority state control and ownership. Good management is probably more important than the nature of the system itself, so this diversity is probably healthy and should continue, leaving room for continuing innovation. When economies were still national in scale, businesses operated within that framework, and were subject to national legislation. A brief summary of the forms of economic governance that have emerged at the national level may help to identify those functions that may now need to be extended or transposed to the international level.

National legislation has defined the legal forms that economic enterprises can take, such as partnerships, cooperatives, limited liability companies and corporations, defining principles of ownership, shareholding and legal standing. Systems of intellectual property have been created for patents, trademarks and copyrights to stimulate innovation and protect trade secrets. Frameworks for business accountability, management oversight and taxation have evolved, along with those for responsibility and liability. Abuses have led to labor laws, and regulations to protect health and the environment and to reduce social impacts, as well as product standards and labeling requirements for consumer protection. The scope of national governance of the economy is indeed very broad. These systems are still far from perfect, as evidenced by the frequent use by businesses of legal loopholes, lobbying, "creative" accounting, tax evasion, fraud and corruption.

With globalization, multinational corporations have been able to escape in large part from those controls, with many forms of behavior that would be considered illegal nationally perfectly "legal" internationally because of the lack of international legislation. Companies can choose the best legal regime for each activity, hide true ownership and control, locate their profit centers in tax-free havens and practice transfer pricing to minimize tax liabilities wherever they operate. They may also bribe public officials in developing countries when they would never do so at home. The natural tendency in a liberal economy for the biggest companies to outcompete or buy out their competitors leads to monopoly positions, which even the most liberal governments have legislated against at the national level to ensure

[52] Hickel, Jason, 2017. "Aid in Reverse: How Poor Countries Develop Rich Countries," *The Guardian*, January 14, www.theguardian.com/global-development-professionals-network/2017/jan/14/aid-in-reverse-how-poor-countries-develop-rich-countries; Curtis, Mark and Tim Jones. 2017. *Honest Accounts 2017: How the World Profits from Africa's Wealth*, Global Justice Now, May, www.cadtm.org/Honest-Accounts-2017-How-the-world.

some level of competition, but for which there is no equivalent capacity to manage this risk internationally. Corporations and financial institutions have become "too big to fail," larger in economic weight than many countries. Not only are global monopolies growing in different economic sectors, but vertical integration is allowing them to control everything between the primary producers to the final consumers with the aim to maximize their profits. The agriculture and food sector,[53] and information and communications technologies, are some examples.

It is also a waste of resources to duplicate in many countries the same process of determining standards for protecting health and the environment, when issues of human health are universal and a chemical's toxicity does not vary from one national jurisdiction to another. Wealthy countries can afford to research and determine high standards of protection, while poorer countries lack the resources to give their populations the same levels of protection. This is an obvious area for harmonization at the global level to the benefit of everyone everywhere. The best technical competences in the world could be harnessed to determine the levels of protection and regulation required. At the same time, global standards can create a level playing field for business that would greatly simplify commerce and reduce the bureaucratic burdens of dealing with a wide variety of national legislative requirements and regulations.

While it is relatively easy to define the scope of the problem of governance in this area, finding solutions is not so evident, since existing mechanisms of economic governance are often rudimentary or ineffective, as evidenced by the repeated economic crises that the world has experienced. Some elements of global governance will be necessary to provide a level playing field for economic actors and to prevent the present competition between countries for the lowest social and environmental standards and most advantageous fiscal arrangements (for the companies, not the countries). This need has long been recognized as a fundamental gap in the UN system.[54] Creating a UN Organization for the Economy would be one option.

Some of the options for areas of global economic governance would be common legal frameworks for the different types of enterprises, harmonized levels of taxation and common standards for fiscal systems and accounting to ensure transparency and comparability. Minimum social and environmental standards could ensure that the planetary environment is properly protected, human rights are respected and social cohesion within and across countries is maintained, while allowing some flexibility to adapt to local particularities and priorities. Intellectual property regimes that disproportionately favor private profits over the common good need to be considered and adjusted so that innovations do not benefit only the rich but are widely

53 Berne Declaration/EcoNexus. 2013. *Agropoly: A Handful of Corporations Control World Food Production*, Zurich, Berne Declaration.

54 Childers with Urquhart, *Renewing the United Nations System*; Commission on Global Governance. 1995. *Our Global Neighbourhood: Report of the Commission on Global Governance*, Oxford, Oxford University Press.

distributed to all who need them. More fundamentally, legal and institutional frameworks that make profits the sole objective of corporations should be replaced with statutes that adjust the primary purpose and driving force of the enterprise as some service to society, providing sustainable value for all stakeholders and the common good, with profitability one measure of efficiency among others (see, e.g., the Benefit Corporation model, which currently exists in more than 30 US states).[55]

THE WORLD ECONOMY

Since the Bretton Woods Conference, there has not been a significant step forward in designing a framework for the world economy. In 1944, Keynes wanted a global currency as the stable foundation for global markets, but the United States and United Kingdom were too intent on defending the dollar and the pound, so the IMF was the second-best option.[56] Since then, too many vested interests, both governmental and in the banking system, have sought to limit the extent of regulatory interference, with their aim to maximize financial power and profits. More recently, inadequacies in our global financial architecture – including, for instance, poorly regulated financial markets in the private sector – were central to the 2008–2009 world financial crisis and the associated costly disruptions. There seems to be little confidence that the vulnerabilities exposed by that crisis have been adequately addressed and that the global economy is thus protected from an even bigger future financial shock (see Chapter 15).

A greater concern is that the whole framework of the world economic system is fundamentally faulty, starting with the indicators for success that it uses. GDP measures financial flows, but not what they are used for in relation to the common good. Disasters and the subsequent reconstruction, and wars (at least for the victors), contribute positively to GDP. Profit as the ultimate objective and measure of success in the current prevailing economic paradigm is pursued as an end that can justify any means, such as the sale of tobacco and other harmful and addictive products.[57] The maximization of shareholder value has produced a shift of profits away from investment and toward dividends. The resulting underinvestment hurts employment and contributes to economic stagnation, while the top 1 percent of wealthy investors and corporate leaders with stock options become ever richer. They manipulate the system for their own advantage. Government and central bank efforts to stimulate the economy with quantitative easing and borrowing are ineffective when the money mainly inflates capital and market valuation rather than going into real

55 See https://benefitcorp.net/what-is-a-benefit-corporation.

56 López-Claros, A. 2004. "Sixty Years After Bretton Woods: Developing a Vision for the Future." http://augustolopezclaros.com/papers/.

57 On the many limitations of GDP as a measure of human welfare see López-Claros, 2018, "Is There a Spiritual Dimension to Economic Development?" http://augustolopez-claros.blogspot.com/2018/04/is-there-spiritual-dimension-to.html.

investment, leaving ever-growing government debt and the resulting need for austerity in their wake. These economic inefficiencies are unsustainable.

In our interconnected world, the banking system does not exist in isolation. The Governor of the Bank of England warned before the 2015 Paris Climate Change Conference that climate change could bring down the whole world financial system, since banks were overextended in their lending to fossil fuel development, and if investors suddenly panicked over potential stranded assets, the system could collapse.[58] Today, the greatest risk may be excessive government borrowing for quantitative easing and reducing taxes. Austerity measures are imposed on the poor and middle classes to prevent governments from defaulting, and interest rates must be kept low, below the growth rate in the economy, to prevent debt servicing from becoming unmanageable. The realization that governments cannot go on expanding borrowing forever and are unlikely to ever pay back their debts, perhaps triggering a wave of government defaults, would be far more serious in its repercussions than the last global financial crisis, and would itself prevent governments from responding as they did in 2008–2009. No existing institution is currently capable of addressing this global risk, which is not negligible, as discussed in Chapter 15.

This is another challenge for global governance, which will need to create a new economic and financial architecture that will ensure productive investment and innovation, while also providing for better wealth redistribution so that everyone benefits from economic activity and no one is left behind. The IMF is only partly responsible for this (Chapter 15). The 1995 Commission on Global Governance proposed the creation of an Economic Security Council to assess the state of the world economy, provide a long-term strategic policy framework, ensure consistency between the parts of the system, and give political leadership and promote consensus on international economic issues.[59] It would be highly desirable to convene a new "Bretton Woods" conference to adopt preventive measures, build more resilience into the global financial system and ensure more social cohesion, before a serious crisis occurs that could see major currencies collapse, potentially shut down global trade and badly cripple the world economy.

[58] Carney, Mark. 2015. Quoted in Paul Brown, "Climate Change Threatens Global Financial Crash." Climate News Network, October 2. http://climatenewsnetwork.net/climate-change-threatens-global-financial-crash/?utm_source=Climate+News+Network&utm_campaign=1bd3656d6b-Carney_s_crash_warning10_2_2015&utm_medium=email&utm_term=0_1198ea8936–1bd3656d6b-38775505.

[59] Commission on Global Governance, *Our Global Neighbourhood*, chapter 7.