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Comments for Branko Milanovic, “The Ethical and Economic Case for Global Transfers,” presented at the Conference on the Ethics of Globalization and Development, Cornell University, September 29-30, 2006.

I am very pleased to have the opportunity to comment on this excellent and provocative paper. My own research up to this point has been primarily quantitative and descriptive rather than prescriptive, so I must admit at the outset that I am a relative neophyte when it comes to the debate on global economic justice. Commenting on this paper has been doubly rewarding: Dr. Milanovic’s paper itself raise a number of interesting questions, and it inspired me to dip a toe into the large pool of literature on global economic justice in the second era of economic globalization.

The paper asks whether there is a case to be made for global wealth redistribution. At the domestic level, in all advanced industrial countries redistribution occurs – although the variation in the degree of redistribution is extreme.¹ Despite massive (and growing) inequality in the distribution of wealth *between* countries, cross-national transfers via bilateral and multilateral foreign aid are miniscule. Milanovic suggests three justifications for transfer of wealth from rich to poor countries: (1) compensation for the growth-retarding legacies of colonialism (resource extraction and weak institutions); (2) the application of the Rawlsian difference principle to the entire world; (3) Rawls’ more limited formulation of foreign aid as a way of transforming “burdened” societies that lack endowments of “well-ordered” societies - specifically, provision of basic human rights.

When individuals, rather than nation-states, become the primary unit of analysis, the compensation principle can be rejected. Milanovic asks why individuals in the global North should have to compensate individuals in the South for crimes of colonialism that they themselves did not commit. I’d like to suggest another reason why the compensation principle is problematic. Compensation for colonialism ignores the *variety* of legacies bequeathed by colonialism. Atul Kohli’s study of development is instructive: extractive British colonial rule in Nigeria can certainly be blamed for that country’s weak institutional legacy, but aspects of the Japanese colonization of the Korean peninsula can be said to have contributed to South Korea’s growth miracle.² It becomes difficult to distinguish at the margins between *levels* of impediment to future economic growth resulting from colonialism.

Aside from a discussion of the potential gains from free migration, there is not much on the economic case for global redistribution. I think the paper would benefit from more

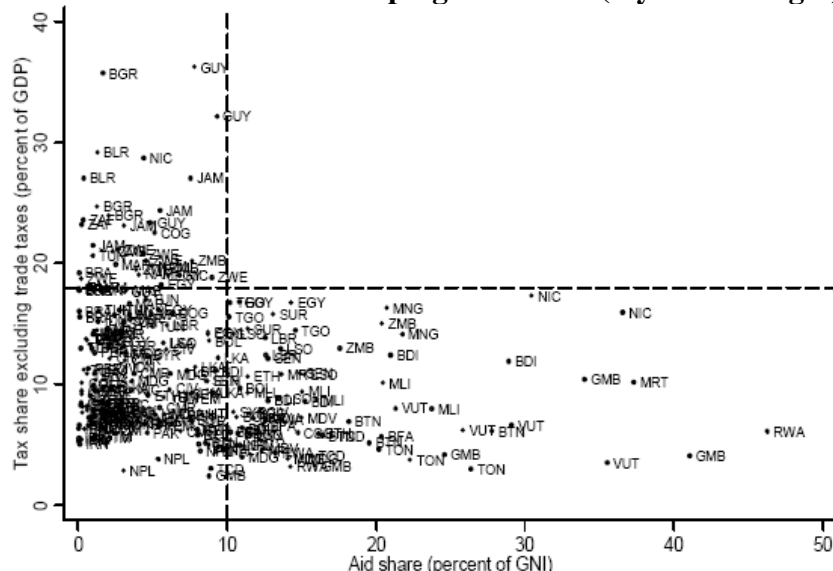
¹ For example, according the Luxembourg Income Study the reduction in poverty after taxes and ransfers in the mid-1990s was 82 percent in Sweden and 13 percent in the United States.

² Atul Kohli, *State-Directed Development* (Cambridge University Press, 2004).

attention to this issue. In Milanovic’s “Rules of Redistribution and Foreign Aid” he develops an approach to identify individuals in the poor (recipient) and rich (donor) countries in order to maximize the progressivity of transfers. This is a fine point, and Milanovic makes a strong case for encouraging redistribution from more unequal rich countries to more equal poor countries. I would argue there is another issue that should be addressed, which is to focus on the *means* by which wealth is redistributed from rich to poor countries. Arthur Okun describes redistribution using the analogy of a leaky bucket: due to factors like administrative costs and disincentives, some amount of the transfer will be lost – it will leak out of the bucket.³ The question becomes how much leakiness we are willing to accept – 25%? 50%? 99%? The degree of leakiness in the global redistribution of wealth from rich to poor countries would result from pathologies of the international institutions as well as absorption problems in the recipient countries. Burnside and Dollar’s well-known study suggests that absorption will only occur where the policy environment is good – a consequence, largely, of effective institutions.⁴ What if increasing foreign aid actually undermines the institutions that are essential to absorption?

The figure below, taken from a recent paper by Moss, Pettersson, and van de Walle, illustrates how aid may actually exacerbate institutional weakness in developing countries.⁵ Imagine that the figure is divided into four quadrants corresponding to the dotted lines of demarcation. In this figure, tax share (%GDP) is a proxy for institutional capacity. While an exercise like this is merely suggestive and does not account for confounding factors or selection effects, it is instructive to note that no cases appear in the northwest (high aid/high tax revenue) quadrant.

Figure 1: Aid and Tax Shares in Developing Countries (4-year Averages)



³ Arthur Okun, *Equality and Efficiency: The Big Tradeoff* (Washington, DC: Brookings Institution, 1975).

⁴ Craig Burnside and David Dollar, “Aid, Policies, and Growth,” *American Economic Review* (Sept. 2000).

⁵ Todd Moss, Gunilla Pettersson, and Nicolas van de Walle, “An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa,” working paper no. 11-5, The Mario Einaudi Center for International Studies, Cornell University (November 2005): pg. 10.

I find the section on the global application of the difference principle illuminating. To recapitulate, if individuals from the entire world were set to formulate social rules under a veil of ignorance – they do not know where they will end up in terms of resource endowment – they would set up institutions for global wealth redistribution. Rawls rejects the global application of the difference principle for reasons detailed in *The Law of Peoples* and outlined in the paper considered here. Milanovic cleverly points out a contradiction in Rawls’ theory – that the existence of federalism (specifically, multi-ethnic federations where ethnic populations are centralized in different regions) undermines the application of the difference principle. The paper suggests that since federalism should not be an obstacle to the theory (since many of Rawls’ examples are drawn from the U.S.), it should be applicable to the entire world, as well.

The second major point regarding the applicability of the difference principle to the world relates to global governance. An objection to the cosmopolitan view is that, in an anarchic international environment, there is no central authority that can address global redistribution claims. Milanovic addresses this objection by appealing to “creeping cosmopolitanism” – the international institutions that have grown in prominence in the last two decades – which could plausibly function as a sort of global governance framework, stopping short of world government. Here I would suggest that Milanovic may be too sanguine about the power asymmetries that underlie international institutions.

While Milanovic focuses on NGOs like Transparency International that did not emerge out of interstate agreements, the most powerful international institutions – like the IMF and World Bank – were creations of powerful states. The behavior of these institutions (agents) is in many ways shaped by their founders (principals). For example, Randall Stone has shown that the suspension of IMF programs is far less likely for borrowing countries that are more important to U.S. geopolitical interests.⁶ Strom Thacker has demonstrated that allies of the U.S. are more likely to receive IMF loans than non-allies.⁷ The burden of future work by cosmopolitans is to prove that the institutions of global governance can be wrested from the states that activate and gave life to them.

⁶ Randall Stone, *Lending Credibility* (Princeton University Press, 2002).

⁷ Strom Thacker, “The High Politics of IMF Lending,” *World Politics* 52 (October, 1999): 38-75.