

Ethical and economic case for global transfers

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1. Introduction

While in practically all countries in the world there are disagreements about what is the optimal extent of redistribution, income redistribution of one kind or another takes place within each nation. The fact that redistribution is limited to national jurisdictions is best illustrated by noticing that rights to welfare benefits are generally linked to citizenship. In the economics and philosophical literature there are various rationales given for redistribution within national borders. The question this paper asks is very different—whether a case can be made for global redistribution, that is for the existence of cross-country transfers that would go from rich citizens of rich countries to poor citizens of poor countries.

Social transfers, in principle, include two types of transfers. The first are insurance-based transfers (like pensions and unemployment benefits). The second are purely redistributive transfers based on needs, and not on any actuarial calculations.² We are interested in needs-based transfers. There are several possible cases that can be (and have been) made for their existence at the national level.

Individuals belonging to a nation, not only elect their own government, but enter into a “social contract” which implies that they, up to some extent, care for each other

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² Pensions and unemployment benefits are examples of social transfers that are always based on an element of (and sometimes entirely) on actuarial considerations.

and are willing to transfer income from those who have it to those who are poorer. Rawls's "justice as fairness" in *Theory of Justice (TJ)* is explicitly couched in contractual terms (Rawls, 1971, p. 16). In real life, for example, the creation of the Swedish "People's Home" program in the late 1930's, which practically defined what we understand under the term of welfare state, was also contractual. It was made possible thanks to a consensus of the two leading parties, then, of trade unions and employers, and was facilitated by the ethnic and cultural homogeneity of the population.

This last point (ethnic and/or cultural homogeneity) is very important when discussing cross-border transfers, for it is a crucial point that separates the application of certain principles of justice domestically from their application globally. As is well known, the difference principle, defined by Rawls in his *Theory of Justice*, is used to set the limits to the maximum acceptable departure from the state of full economic equality. In the background, and not explicitly mentioned in *TJ* but apparent when one contrast that book with the much later *The Law of Peoples*, is that the difference principle operates in an environment of a single people, who, following Mill, are supposed to share common "sympathies", as well as culture and history. This caveat (one people) will assume crucial importance when we move to looking at the possible justifications of global redistribution, *viz.* application of the difference principle at the global level.

More empirically, a simple observation that representative democracies do choose to proceed to some redistribution of income implies that this reflects voters' preferences. In expressing these preferences, voters may be led by an implicit insurance perspective, voting for taxes that finance needs-based transfers on the assumption that even if they do not require transfers now, they might become beneficiaries at some point in the future. Or, voters might be led by some "affinity" that they feel their fellow-citizens and might hold that every member of a community must be assured a minimum income to cover at least his/her (socially-defined) subsistence needs. Whatever the motivation, the facts are that the needs-based transfers exist in practically all rich nations, and that their size in terms of GDI or people's disposable income is sizeable (see Table 1).

Table 1. Domestic needs-based social transfers and official development assistance in selected OECD countries

	In percent of country's GDI			"Worth" of a domestic poor expressed in terms "foreign" poor (rounded to the nearest 000)
	(1) Needs-based domestic social transfers (1999)*	(2) Official development assistance (2003)	Ratio (1) to (2)	
United Kingdom	7.6	0.34	22.4	97,000
France	2.8	0.41	6.8	30,000
Germany	3.2	0.28	11.4	36,000
Italy	2.2	0.16	13.8	62,000
Sweden	2.5	0.70	3.5	103,000
Netherlands	3.8	0.81	4.7	76,000
United States	4.8	0.14	34.6	32,000

Source: For domestic social transfers, see Heady, Mitrakos and Tsakoglou (1999, Table 1, p.19). For Official development assistance data from Shah (2006, Table "Official development assistance (ODA) from 2002 to 2005"). Based on OECD website.

Note: includes only means-tested transfers.

*/ Fiscal year 2000 for the United States. Data from Rector (2001).

But when we extend our gaze from the nation state to the global level, we notice an entirely different picture. The needs-based transfers that cross national borders are limited to relief assistance and bilateral aid. As Table 1 shows, the cross-border needs-based transfers are minute compared to within-national transfers, and of course even more so if we compare them to some objective and citizenship-blind needs. For it is very clear that were transfers needs-based only, namely, regardless of where those who need them live, most of the transfers would be cross-border. The extent of the home bias can be roughly estimated using just a few numbers. The percentage of the very poor (with gross per capita income of less than \$PPP 2 per day) is about, or fewer than, 1 percent in all OECD countries;³ it is almost 40 percent in the world (2.6 billion people according to the latest World Bank numbers).⁴ We can then calculate the implicit social value placed on a poor person living in a rich OECD country compared to an equally poor person living in the rest of the world. Take UK for example. On this calculation, about 0.6

³ Already gross per capita income of the second percentile is more than \$PPP 2,000 per capita annually (or more than \$PPP5 per day) in all rich countries (calculated from LIS database).

⁴ See Chen and Ravallion (2004).

million British citizens get some 7.6 percent of British GDI while 2.6 billion people in the world receive only 0.34 percent of British GDI. In other words, each “domestic” poor counts as much as 97,000 foreign poor people. The numbers are not much different for other rich countries: each “domestic” poor counts as “little” as 30,000 and as much as 100,000 “foreign” poor. This is the wedge that the national political process draws between the same needs depending on whether they are felt domestically or globally.⁵

We can of course take these data as an accurate and inalterable description of reality and argue that cross-border transfers or global redistribution is either unrealistic since hardly anyone engages into it, or even undesirable. The latter was to some extent the position taken by Rawls in his influential *Law of Peoples* where cross-border transfers are to be limited only to (i) the “burdened” societies (defined as those whose material poverty prevents them from creating the institutions of liberal or at least “decent” society), and (ii) to be finite in time, the cut-off point being when “burdened” societies become either liberal or decent. Furthermore the transfers are not to exceed the subsistence minimum needs. In addition, the “outlaw” or authoritarian societies are excluded from the list of those who should be helped regardless of poverty of their citizens.⁶ Rawls’ global redistribution is therefore quite minimal even if it could be regarded, by the standard of what actually exists currently, as relatively generous.

One’s views about global redistribution are not solely determined by what actually exists or by one’s views about the feasibility or desirability of global institutions, the likely future role of the nation-state, or the extent to which our “affinity” might apply to the people with whom we do not interact, but also—and this is infrequently recognized in the literature—on one’s economic view of the world. This view is often

⁵ This is not a unique case showing how political process values different individuals depending on what is their citizenship. The US marines are reported to have, in one instance, paid \$2,500 for each wrongfully killed Iraqi civilian. When Libya settled the dispute over the bomb attack that downed a French airliner, it paid about \$200,000 per French victim. Similarly, when Libya settled the dispute about the terrorist attack on a PanAm airplane it paid \$10 million per American victim. So, one American (French) life is worth 4000 (80) Iraqi lives.

⁶ This opens up another ethical problem of sanctioning collectively the poor people who live in “wrong” countries. Rawls does not discuss this.

implicit, or at least not prominently displayed. If one is likely to believe that “the crucial element in how a country fares is its political culture—its members’ political and civil virtues” (Rawls, 1999, p. 117), a statement strongly influenced by David Landes’ (1998) reading of economic history, then one would naturally be less sanguine toward the desirability of transfers and cross-border aid. If one holds (as Pogge 1994 does) that the distribution of resources is a significant determinant of countries’ income levels, and since that distribution is from a moral point of view arbitrary, one would be more inclined toward some global redistribution. Alternatively, those who, following the work by Bairoch (1997) and Acemoglu, Johnson and Robinson (2001), view institutions and European colonialism in particular to have shaped current inter-country income distribution, may argue that the currently rich societies should compensate the currently poor societies. The arguments pro or contra some form of cross-border aid thus heavily depend on what economists think are key determinants of growth, and which one among the theories (since economists are unlikely to come up with only one) we find more plausible than others.

Before we discuss the arguments for a global redistribution, it is important to focus on one, perhaps main, channel whereby the existing global inequalities between individuals in the world, as well as between countries, could be reduced. That channel is free migration of labor. As we know from elementary economics, allowing free migration of labor would probably entail a massive movement of labor from poor to rich countries and would, by improving the allocation of global labor, lead to an increase in global output. A very rough estimate of the static gains associated with a partially free migration is put at more than \$150 billion annually which is equal to the sum of all official development assistance and estimate of welfare gains from all proposed trade liberalizations (see Walmsley and Winters, 2002). This amount thus dwarfs the existing cross-country transfers flows, and would probably dwarf any conceivable transfers that may be envisaged even within a more globally redistributive perspective.

2. Migration

The issue of migration, and of gains from it, are particularly interesting because migration of labor should be one of the key aspects of globalization. Almost by definition globalization includes free mobility of all factors of production. There is no a priori basis why it should exclude one factor of production. Moreover, the past globalization (roughly from 1870 to 1914) was indeed characterized by massive free migration flows (to be distinguished from flows of coerced labor) mostly from Europe to the Americas,⁷ or from India and China to other parts of Asia or the Americas.⁸ As Harris (2004, p.1) puts it, “if anyone had suggested in, say, 1910 that migration was an unusual phenomenon, they would have been regarded by a knowledgeable person with astonishment”. Yet, currently migration is much smaller in absolute numbers, and of course even more so compared to the total world population. Additionally, we are witnessing increasing obstacles to migration raised by the rich countries. In Rawls’s work, such restrictions are fully justified. Each people is regarded as being in essence a custodian of its own culture, traditions, and the piece of land it currently occupies. As such, each people has the right to accept or exclude members of other peoples from moving in.⁹

In economic terms, it is difficult not to see how greater migration may not be conducive to higher world output. A simple example may suffice. Consider two countries, R (for rich) and P (for poor). The first will have a much higher capital stock per worker than the second. Consequently, its output per worker will also be higher for

⁷ According to Bairoch (1997), emigration from Europe between 1870 and 1915 was 36 million people.

⁸ The immigration rate into the United States increased from 6.4 (per 1,000 population) in 1870 to 9.2 in 1880 and then further to 10.4 in 1910. In 1990, it was 2.6 percent (Crafts, 2000, p. 30) and still probably higher than in any other major rich country (see Baldwin and Martin, 1999, p. 19).

⁹ This is a view held by Kant too. In his Third Definitive Article for Universal Peace, Kant (1963, p. 103) writes that “a special beneficent agreement would be needed in order to give an outsider a right to become a fellow inhabitant for a certain length of time. It is only a right of temporary sojourn..” Hospitality is all that is required, but a foreigner remains a guest. Following this logic, Kant goes on to criticize the European settlers of the Americas, Asia and Africa for treating these as “lands without owners” (p. 104). England, “the commercial state” is singled out for especial opprobrium. One of course cannot but wonder where Rawls, or indeed Kant, would have lived had their anti-immigration principle been observed in the past.

most of the conceivable (or probably all) population ranges. Suppose further—to simplify the matters but also to stack the cards *against* gains from migration—that population size in both countries is optimal, that is, it is such that output per worker is maximized given the existing capital stock in each country (see Figure 1). This means that the initial positions will be such as A and B. If movement of labor from poor to rich country occurs under these conditions, (i) total output will go up because the marginal product of a worker who emigrates from P to R will be higher in the new setting, and (ii) the average per capita outputs in both countries must fall (this is of course true by construction since we have assumed that the populations are such that income per capita is at its feasible maximum). Neither the citizens of the poor nor rich country (except for those who would migrate) would therefore have an incentive to vote for free migration of labor. However, world as a whole would be manifestly better off. When there is such an outcome, we know from welfare economics that, to make such a move possible, winners may have to compensate the losers for their income loss (while there would be still a net gain for the winners—migrants in this case—since total output is higher). But it also shows that free migration of labor might have to be accompanied by some (at first sight) unexpected compensation principles. Migrants might have to be taxed in order to provide the “bribe” for people in rich countries to allow them in, and people in poor countries to let them leave.¹⁰

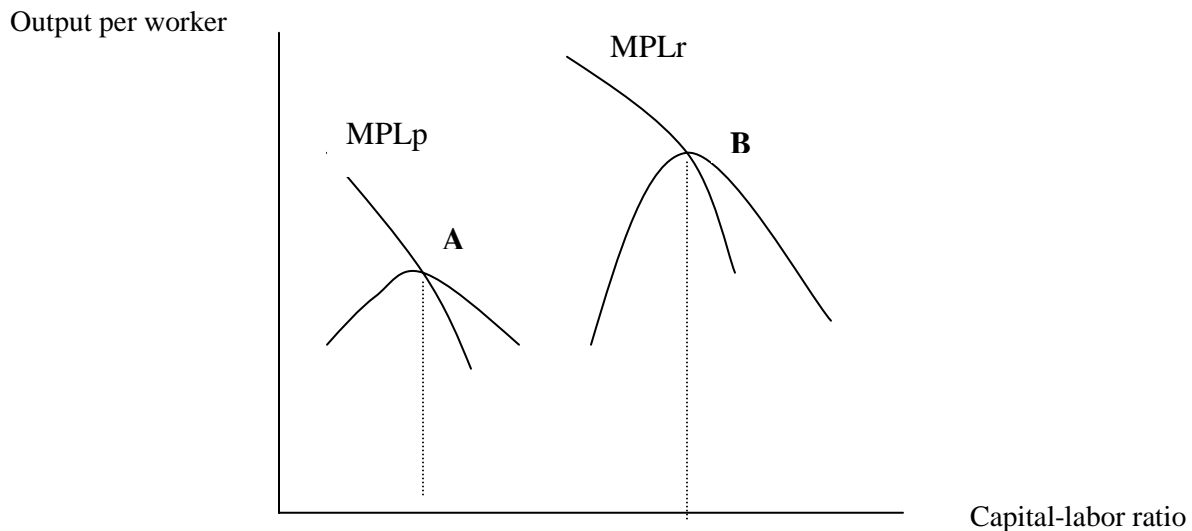
Finally, notice that if the populations in the two countries are at the optimum, and there are legal impediments to migration (from whichever side: receiving or emitting country), no migration at all would take place and potential output gains will not be realized. Each country will be in “equilibrium” even if marginal products and output per capita differ.¹¹ There are also other, perhaps more realistic assumptions. Assume, for

¹⁰ In the simulation model that yielded the earlier mentioned gain of about \$150 billion, most of the gains accrue to the new migrants while income declines are experienced by the “old” migrants, that is those who migrated before (quoted from Bourguignon, Levin and Rosenblatt, 2006, p.22). Using about the same argument as here, Freeman (2006) proposes to auction off permits to immigrate into the rich countries, or to tax immigrants at higher rates in order to provide compensating funds for the domestic population. .

¹¹ Equilibrium under condition of unequal marginal and average products per capita has been one of the problems that emerged in the study of labor-managed economy (see Vanek, 1970). The problem is formally the same as here: labor-managed firms are also supposed to maximize output per worker (member) and once they reach the optimum (as in Figure 1) there is simply no interest from the better-off firm to hire

example, that the population size of a poor country is higher than optimal—given its capital stock—and the population size of the rich country is less than optimal. Under these conditions, transfer of labor from P to R would entail not only an increase in world output but also an increase in per capita incomes in both countries. There would be no need for compensation of losers by winners: all three types of people (original citizens of rich and poor countries as well as the migrants) would be better off.

Figure 1. Optimal labor-to-capital ratio in two countries without mobility of labor



We have considered here the simplest case of (implicitly) one type of labor: people in the South and North are fully interchangeable. But the situation becomes more complex when we have two or more types of labor (say, unskilled, medium-skilled and highly skilled workers) and one fully or partially mobile factor of production like capital. As Piketty (1997) shows, with two types of labor and abundance of unskilled labor in the South, free migration unambiguously leads not only to higher overall output for the world, but for higher income for the poor in the South (the unskilled laborers). The poor

away some labor from the worse-off firm. When we apply this analysis to two countries, however, transfer of labor would occur since individual entrepreneurs are not interested in maximizing country's income per capita (but their own). So formal impediments to migration must exist to produce equilibrium despite different marginal products.

are thus, in a Rawlsian twist, shown to benefit from open borders. This improvement is no longer assured when we deal with three kinds of labor and assume that positive complementarities between different types of labor are greater the closer to each other are workers' skills. The efficient outcome could be such that the medium-skilled workers from the South end up migrating North to work with the highly skilled Northerners (complementarity between them being positive). This then deprives the remaining unskilled workers in the South of people with whom they worked before; they would now have to work among themselves and their output (and income) would be less than it was before. As Piketty (1997) shows, such an outcome is not likely in practice because it requires an extremely high negative elasticity of complementarity between the highly qualified Northerners and the unskilled Southerners, but in principle, we cannot exclude it. Were this the case, then free flow of labor and an increasing world output would be compatible with the worsening position of the poorest people. Yet again, some compensation rules, would be needed even in presence of fully open borders.

3. Compensation

Returning to the issue of possible arguments for global redistribution, global transfers can be justified on three grounds: transfers as compensation for past wrongs, transfers based on the cosmopolitan interpretation of the difference principle, and Rawls' own more limited principle of redistribution which aims to enable "burdened" societies to accede to the status of "decent" or "well-ordered". The first approach projects the past onto today's decisions on redistribution; the second is concerned only with today's distribution of income among world citizens; the third is concerned with satisfying minimal economic requirements for the functioning of a reasonably democratic society. Thus the objectives of the three principles will be quite different.

Consider the grounds for compensation. The logic is that there is responsibility of (part of) the currently rich world for the current poverty of the poor countries. The cause lies in colonialism and more generally introduction of exploitative institutions. These institutions have not only spoiled the colonized countries of their own wealth (including

by the provision of cheap or servile domestic labor) but have also been responsible for blocking progress of the poor countries since their own elites have found it easy and convenient to maintain the exploitative institutions introduced by the Europeans. The two points, (i) introduction of exploitative institutions by colonizers (of course in countries where it was the best strategy) and (ii) their persistence as an obstacle to growth, are the claims made in a very influential paper by Acemoglu, Johnson and Robinson (2001).¹² Although the main objective of their paper was to explain why there is a persistence of large per capita income gaps between countries in the world, there is obviously no reason why, if one adheres to the Acemoglu, Johnson and Robinson logic, the same argument may not be used for compensation requests.

If we treat these two points separately, and use as a ground for compensation only the first one—exploitation—since it is much less ambiguous and more easily documentable, one could still come up with fairly substantial numbers. Consider for example two conservative estimates of the “colonial drain”—unrequited transfers from colonies—from Dutch Indonesia and British India (see Maddison, 2001). The comparisons are interesting because they cover exactly the same period and were made by Maddison (2001, p. 87) using the same methodology. For the period 1868-72, Maddison estimates Dutch drain to have been 7.4 percent of Indonesia net domestic product, and British drain to have been 1 percent of Indian NDP. For the period 1911-15,

¹² We are using here the way in which Acemoglu, Johnson and Robinson have recently framed the problem. However, the idea of compensation goes back to the claims of exploitation which are much older. In the economics literature, the theory of unequal exchange (Amin 1970, Emmanuel, 1972) is certainly most relevant. Amin views colonization as “primitive accumulation” on the global level, which like the earlier primitive accumulation at a national level was often characterized by the use of non-market and violent ways of amassing wealth (see Amin, 1970, p. 152). The view has a distinguished pedigree in Marxism. In 1881, Marx in a letter to Nicolai Danielson says “what they [the English] take from them [the Hindus] without any equivalent and quite apart from what they appropriate to themselves annually within India...amounts to more than the total sum of income of the 60 million of agricultural and industrial laborers of India.” (Marx, 1970, p. 332). Sultan Galiev pushed the idea to its extreme form, by asking in the late 1920’s for the reverse discrimination, and the replacement of the Communist International by a Colonial International in which colonized peoples would have primacy (rather than workers from the advanced countries). So Sultan Galiev wanted to fight exploitation by having erstwhile exploited expropriate and then exploit in their turn the former masters! Frantz Fanon (1974, p.51), in his *Les Damnés de la Terre* writes: “When we hear that a head of a European country, with the palm of his head on his heart, declares that he for sure must help the poor, undeveloped peoples we are not at all touched. On the contrary, we say to him: ‘This is a reparation that is owed to us’” (my translation).

the drain amounted to respectively 7.6 and 1.3 percent, and finally between 1926 and 1930, it was 10.3 percent and 0.9 percent. If we take only the estimates for these fifteen years (and assume that the drain during all other years was zero),¹³ and use Maddison's own estimates of contemporary Indian and Indonesian GDI per capita and population, and a very modest discount rate of 1 percent per annum, we obtain that the present value of the colonial drain (expressed in 1990 international dollars) was 7.7 trillion in the case of Indonesia and 4.8 trillion in the case of India. The former amount is 22 times Dutch current GDI, the latter amount is four times UK's current GDI.¹⁴ Were we to include other years under colonialism (more than one hundred in each case), the amounts would become exorbitant.

Much higher estimates for India are made by Patnaik (2005, Table 6). The three-year average of unrequited transfers out of the subcontinent onto Britain are estimated at 6.05, 6.01 and 5.27 percent of Britain GDI in respectively 1801, 1811 and 1821. Taking only this last year for which we have GDI per capita and population data in Maddison (2004) and using the same low discount rate of 1 percent per annum, the current value of the compensation works out to be more than half-a-trillion in 1990 PPP dollars. This is almost one-half of Britain's annual GDI in the early 2000's.

Moving to the second point, *viz.*, introduction of growth-inhibiting institutions, colonialism is regarded by Bairoch to have been the main cause of non-transmission of technological revolution to the South, to the colonized countries (see Bairoch, 1997, vol. 2; Bairoch, 1989). While Bairoch does not think that colonial exploitation helped much the rich world (in other words, he holds that the extent of trade between North and South was negligible for the North, and that Northern technological revolution had internal causes and was not driven by colonialism), he holds that it held back development of the

¹³ Maddison data for India and Indonesia start in 1870. For the two earlier years (1868 and 1869), we assume all the factors to have been the same as in 1870.

¹⁴ Current means year 2000 GDI expressed in 1990 international dollars (all data from Maddison, 2004).

poor world. ¹⁵ A similar view is propounded by Kuznets (1973, p. 254): “...the increasing national cost of organization in developed countries made for policies toward other parts of the world that, while introducing some modern economic and social elements were, in many areas clearly inhibiting”. At the extreme, Bairoch’s and Kuznets’s argument can be interpreted to mean that even if direct exploitation was zero, compensation would be in order because of the second element: introduction of policies and institutions that were inimical to growth. ¹⁶

One can argue for compensation—whether because of exploitation or impediment to growth, or both—using Rawls’ own assumption that at the global level relations between individuals are mediated by the “peoples” or states where they live. Since in international relations, it is “peoples” that have meaning, it may then make sense that “people” of England *today* compensate “people” of India *today* for the transfers that occurred between their forefathers. Yet, arguing for global transfers based on the compensation principle has one, in my view, potentially fatal flaw. If one believes that at the global level, ethically meaningful relations are between individuals only (as cosmopolitan view—see below—would have it), that is, by individuals unmediated by their societies or “peoples”, ¹⁷ it is then difficult to see why the present population of the

¹⁵ In other words, it is not the resource transfer from the South to the North that was the chief culprit for Southern failure to develop but that their mutual relations were structured in such a way (advantageous to the North) which inhibited Southern industrial development. The key points are summarized by Bairoch (1997, vol. 2, 665-669, 647-8) under the term of “colonial contract” between the metropolises and colonies that included the following four elements: (i) colonies can import only products from the metropolis and tariff rates must be low, normally zero percent, (ii) colonial exports can be made to the metropolis only from which they could be reexported, (iii) production of manufactured goods that can compete with the products of the metropolis is banned, and (iv) transport between colony and metropolis is conducted only on metropolis’ ships.

¹⁶ Other authors (like Utsa Patnaik, 2005, and Samir Amin, 1970) argue that exploitation was indeed instrumental in launching the Industrial revolution. According to Patnaik’s calculations, net transfers from India financed more than 2/3 of British gross capital formation in the early 19th century. He puts it thus: “This [transfers] helps to answer the question which has vexed economic historians of Britain for decades and to which they have hitherto not found an analytical answer: how did Industrial revolution take place in a country undergoing wartime financial strains, [and] where there was no observed doubling of the investment rate from domestic savings...as development theory from Lewis to Kuznets and Rostov, said there should be”.

¹⁷ “The monist idea is that the basic constituency for all morality must be individuals not societies or peoples.” (Nagel, 2005, p. 124).

North would have to compensate the present population of the South for things neither of them, taken as individual, is responsible.¹⁸ Of course, one could counter-argue that present inhabitants of the North enjoy higher capital stock (and higher income) precisely because of past exploitations. But that leads us into a very uncertain territory where individuals are sanctioned simply because they belong to a given collectivity and this very fact is in direct opposition to cosmopolitanism. We move to the cosmopolitan view next.

4. Global application of the difference principle?

Grounds for global redistribution, according to the cosmopolitan view, are the same ones as grounds for national redistribution.¹⁹ Individuals in the world operate (make a social contract) under the same veil of ignorance as they do in Rawls' nationally circumscribed contract (Beitz, 2000; Pogge 1994). Thus, if the same rules obtain, the existing level of global income inequality does not seem to be the one compatible with the highest possible income for the poor. On the contrary, it might be reasonably thought to be too high. There are then strong grounds for redistribution.

This is of course not admitted by Rawls who explicitly rejects the application of the difference principle to any level above that of "people" (or more accurately, as explained in the Annex to that of "nation-state").²⁰ Wenar (2006) provides a very well argued explanation of Rawls's view. It is based on the claim that legitimacy (being

¹⁸ A very similar point is made by Janos Kis (quoted by Nagel, 2005, p. 129, footnote 13).

¹⁹ A nice definition is offered by Beitz (2000, p. 688): "...the cosmopolitan view...accords no moral privilege to domestic societies. At the deepest level, cosmopolitan liberalism regards the social world as composed of persons, not collectivities like societies or peoples, and insists that principles for the relations of societies should be based on a consideration of the fundamental interests of persons".

²⁰ "...if a global principle of distributive justice for the law of Peoples is meant to apply to our world as it is with its extreme injustices, crippling poverty, and inequalities, its appeal is understandable. But if it meant to apply continuously without end—without a target, as one might say—in the hypothetical world arrived at after the duty of assistance is fully satisfied, its appeal is questionable. In the latter hypothetical world, a global principle gives what we would...regard as unacceptable results. (Rawls, 1999, p.117). Cosmopolitanism is rejected on the following grounds (Rawls, 1999, p. 60): "No people will be willing to count the losses to itself as outweighed by gains to other peoples; and therefore the principle of utility, and other moral principles...are not even candidates for a Law of Peoples".

perceived by own population and other governments as legitimate) is the building block in any pact between nations (or “peoples”, in Rawls’ terminology). Relations between nations are fundamentally different from the relations between individuals and their governments. While the latter relations are motivated by some kind of social contract, the former (state to state) rest on the entirely different basis, that of mutual recognition of legitimacy. Since this is a pact made between peoples, and not between individuals, no *global* difference principle can exist.²¹ The existence of a global government is not only impossible. Even were it possible, Rawls, following Kant, believes that it would come at the cost of unbearable despotism which would eventually dissolve in anarchy.²²

There is, I think, also another possible explanation for Rawls’ refusal to broaden the sphere of applicability of the difference principle. It may be found in his view of society as composed of “non-comparing” groups. In a discussion of “Envy and Equality” (chapter 81 in *Theory of Justice*), Rawls makes the following statement to show that the application of the difference principle (within a nation) will not lead to large inequalities:

Although in theory the difference principle permits indefinitely large inequalities in return to small gains to the less favored, the spread of income and wealth should not be excessive in practice, given the requisite background institutions. Moreover the plurality of associations in a well-ordered society, each with its secure internal life, tends to reduce the visibility, or at least the painful visibility, of variations in men’s prospects. For we tend to compare our circumstances with others in the same or in a similar group as ourselves, or in positions we regard as relevant to our aspirations. *The various associations in society tend to divide it into so many noncomparing groups, the discrepancies between these divisions not attracting the kind of attention that unsettles the lives of those less well*

²¹ Underlying legitimacy is a diversity of doctrines which exist in the world which means that the bases of own legitimacy (legitimacy of various governments) will differ. It is then difficult to see how a single global institution necessarily built on the basis of *one* doctrine could be acceptable to all individuals (see Wenar, p. 13).

²² This is based on Kant’s statement in “Perpetual Peace” written in 1795 (see Kant, 1963, p. 113). But in his “Idea for a Universal History”, written in 1784, Kant says something very different (Kant, 1963., p. 23): “The impact of any revolution on all states on our continent, so closely knit together through commerce, will be so obvious that the other states, driven by their own danger but without any legal basis, will offer themselves as arbiters, and thus they will prepare the way for a distant international government for which there is no precedent in world history... This gives hope finally that after many reformative revolutions, a *universal cosmopolitan condition... will come into being* as the womb wherein all the original capacities of the human race can develop” (my emphasis).

placed. And this ignoring of differences in wealth and circumstance is made easier by the fact that when citizens do meet one another, the principles of equal justice are acknowledged (pp. 536-7; my emphasis).

Now, compare this statement with the following one in *The Law of Peoples*:

“A... reason for narrowing the gap between the rich and poor within a domestic society is that such a gap often leads to some citizens being stigmatized and treated as inferior, and that is unjust....The same would be true of the basic structure of the Society of Peoples should citizens in one country feel inferior to the citizens of another because of its greater riches, *provided* these feelings are justified (emphasis in the original). Yet when the duty of assistance [to the burdened peoples] is fulfilled, and each people has its own liberal or decent government, these feelings are unjustified. For then each people adjusts the significance and importance of the wealth of its own society for itself. (p. 114)

These two statements are very similar. They both view society (in one case, national; in another, international) as composed of broadly non-comparing groups as far as material riches are concerned. So the feelings of comparison, competition and envy between these groups will be regarded as unjustified by Rawls—once the background conditions of equal justice (be it among individuals of a people, or between peoples) are satisfied. In that sense, the decision not to allow for the application of the difference principle globally has its antecedent in Rawls’s view of the domestic society as composed of (to some extent) non-comparing groups. It is simply that the gap between different peoples is only larger than that between non-comparing groups within a single people, and that gap being larger, the application of the global difference principle becomes undesirable.

Finally, note also that since the application of the difference principle is argued by Rawls (1971, p. 105) to give a meaningful interpretation to the principle of fraternity—somewhat of a poor cousin compared to the principles of liberty and equality—its non-application to the global stage implies that the feeling of fraternity must be confined to the members of the same people.

Since there is no global government, there is also no global social contract, and no “addressee” to whom claims for global transfers could be made. In effect, the argument countering the application of the global difference principle draws a lot of its strength and plausibility from the fact that there are indeed no global governance institutions, in the same way that the argument in favor of within-national redistribution gains its strength from the very fact that national governments and national institutions do exist. But it could be that this position, perhaps in an effort to gain plausibility, sets the bar too high. It regards the absence of global governance institutions as a “proof” that they cannot exist and that the level of shared destiny and affinity between all individuals in the world can never approach that existing between individuals belonging to the same people. But perhaps we are asking too much, a world government no less, rather than taking a more evolutionary approach to the building of global institutions. The latter approach I call “creeping cosmopolitanism”.

5. Creeping cosmopolitanism

It is very unlikely that global institutions could be built at once, that both nation states and world individuals would suddenly express (feel) the need for some kind of global governance. The bonds of affinity and joint history are clearly not (yet) sufficiently strong. However such institutions can be built from bottom-up, or more exactly in parts. Rather than aiming for, or waiting for, an illusory world government, one could start by arguing that the most pressing global issues (including global poverty and global environment) must be tackled at the global level and that adequate institutions for these limited tasks ought to be created first. The issue-centered creation of global governance institutions may be likened to the creation of individual “government departments” enabled to handle global issues without a prior construction of a global government. In other words, by creating particular global bodies that deal with issues circumscribed in scope yet global in the sense that they affect many individuals in the world irrespective of their citizenship, we would be gradually introducing elements of global governance.

Several schemes of what may be called “creeping cosmopolitanism” have been proposed as tools for redistribution of income at the global scale. Thomas Pogge (1994) proposed a Global Resource Tax based on the view that depletable resources are a global endowment and that there should be a global tax paid by those who exploit them. That global tax would then be used to finance transfers to the poor people (in poor countries). Although Pogge does not define the institutions that would do the transfers as global but rather simply as a technical expedient that would “facilitate” the transfer, there is, I think, little doubt that his scheme would imply some “creeping cosmopolitanism”. Pogge (1994, p. 224) admits as much by stating that it would lead to “a great role for central organizations, and in this sense, more world government than we have at present”. Borocz (2005) looked at the economic feasibility of a redistribution that would reduce the current standard deviation of mean country incomes by one-half. Richest countries like Luxembourg and Switzerland would contribute the largest part of their income, and the biggest beneficiaries would be the poorest nations. Borocz (2005, p. 891) is aware that such a scheme would require “the construction of social institutions leading to political action on the part of the sane and responsible majority of humankind” but he is agnostic about the type of institution that would accomplish this. Milanovic (2006) proposes that the proceeds of a global tax on some income-elastic goods or services (like air travel or financial transaction) or on activities that generate negative externalities (like CO₂ emissions or depletion of natural resources) be handled by a Global Welfare Agency (GWA). GWA would distribute the proceeds to poor people without any intermediary role of their governments. GWA would be an explicitly global body since it would have both some taxation power, thus diluting the sovereignty of wealthy states, and full disbursement power to poor individuals, thus dispensing with the approval from poor countries’ government and thereby diluting their sovereignty as well. Reddy (2006), in the discussion of contingent (or “state-of-the-world-dependent”) repayment of international debt needs to solve the problem of how a given unfavorable “state of the world”, which gives rise to either full or partial debt cancellation, is to be defined. Here again, a global agency might be in charge of issuing such guidelines.²³

²³ Although Reddy considers the IMF as a possible adjudicator.

6. Toward limited globalism

There is no doubt that nation states remain the key actors in today's world. Many non-personal relations between individuals in the world are conducted solely through the intermediation of their respective national governments. On the other hand, gingerly and with many ups and down, global organizations do emerge. They already cover areas such as environment, human rights, corruption, public health, governance even economic development. They are global because their emergence has not been mandated by any inter-governmental agreements. The reason why these global bodies are present today while they did not exist 20 or 30 years ago is because the nature of the problem has changed. Many of the issues with which global bodies deal today are perceived to affect most of the world regardless of where people live and whose citizens they are. This is at its clearest with environmental issues such as pollution and global warming. But others, such as human rights or various pandemics, have joined the list. More recently, terrorism may be added to it.²⁴

To illustrate the change that has happened, recall that these issues were off-limits in the past either because nation states insisted on strict non-interference in domestic affairs, or, when the issues were brought forward, this was often in the context of ideological jostling between capitalist and socialist camps during the Cold War. The very first effective formulation of human rights as a global issue took place within the so-called "third basket" of the Helsinki process on European cooperation and security.²⁵ While the first basket—then considered crucial—the unchangeability of borders in Europe, has long collapsed, the third basket, extracted by the West as a concession from the Soviets for having to accept the first basket—had immediately taken off the life of its own. It has led to a sprouting of national non-governmental Helsinki Watch committees, and later to a global human rights watch body. When we look at the history of other

²⁴ I am adding terrorism reluctantly to that list because of a manifestly biased hysteria spread on that account. Yet there is no doubt that some global aspects are indeed present.

²⁵ Obviously, the Universal declaration of human rights existed since 1948 but its political relevance, despite many signatory governments, was minimal.

global bodies, it is not much different. Transparency International was, in some rudimentary form, started by a few individuals in the World Bank. They left the World Bank, incorporated themselves and started a global organization that currently has sections in more than 100 countries.

What is crucial in these global organizations is (i) that they were not started by inter-governmental agreements, (ii) that they have members or chapters in practically all countries in the world, and most importantly, (iii) that they have become major “players” in their areas, influencing both individual governments and international organizations. In that way, creeping globalization of international governance is indeed happening. One might hope that, similarly, creeping globalization will soon come to include bodies that would be able, independently, to help the poorest citizens of the world by having the claim on some, small, portion of the income of the globally rich.

ANNEX

Absence of federalism in Rawls.

An odd feature of Rawls' *Law of Peoples* is absence of the discussion of federalism. This is all the more surprising since the book is suffused with theory and examples drawn from US history, and federalism is indeed one of the core contributions made by the American political thought.

However, when one reflects better, one can see why federalism was such an awkward thing for Rawls to handle. Suppose (realistically) a multi-ethnic (multi-people) federation like Spain, Great Britain, Nigeria or Indonesia.^{26 27} Then, the question is raised. If the difference principle applies only to "peoples", how are different peoples that compose a multi-ethnic federation to arrange their own relations? The answer, from Rawls's own theory, should be that they must arrange it the same way that such relations are arranged between different peoples. In other words, they would deal with each other as one people with another, including the fact that the difference principle would not apply. But this is patently absurd since such a loose federation where members would deal with each other as if they were foreign countries could not long exist. It would surely dissolve.

But if then multi-ethnic federations have to behave the same as single-people countries or nation-states (including observing the difference principle between different individuals even if they belong to different peoples), it then clearly follows that the application of the difference principle at the global level is not meaningless or

²⁶ The critique is adumbrated and then dismissed by Beitz (2000, p. 680). He questions whether "the requisite common sympathies...can be found in culturally diverse societies like those of the United States Belgium...India or the Philippines". He dismisses this critique however by saying that Rawls may argue that he does not claim that many states do satisfy the criterion for being a people but rather that it would be desirable to move in direction of nation states. This does not seem fully justified: federations of ethnically diverse people are neither an anomaly nor are they in the danger of extinction. It is odd not to offer any rule as to how they should function.

²⁷ Rawls does not require that people be necessary ethnically the same; it is sufficient that they have the same social values (p. 24). But this is exactly the problem: Islamic and Christian Nigerians may not (and probably do not) share the same values.

impossible. This is because the application of that principle at the global level is no different from the application of the same principle in a multi-ethnic federation (the issue being one of scale not of principle).²⁸

We thus see why Rawls had to drop consideration of multi-ethnic federations from his book, and why his rules can apply (even taking his own approach) only to a world composed of nation-states only. But such a world is clearly very different from the world as it currently exist (and as it existed) since many peoples do not have their own nation state (whether they are divided between several countries as the Kurds are, or share one country –say as Ibos do in Nigeria—with a number of other peoples). For these countries, there are within the confines of Rawls’s theory only two possibilities: (i) either they are ignored, or (ii) his difference principle can, in principle, apply –despite his argument to the contrary, to the entire world.

²⁸ Furthermore, it cannot be said, as a matter of general principle, that the cultural or ethnic differences between peoples composing a multi-ethnic federation are less than the differences between each of them and a randomly chosen other far-away peoples. On the contrary, often times, the differences between the proximate people, of which a federation is composed, are subjectively greater. Thus, both the Sunni and the Shia may perceive the gap between them to be greater than the gap between each of them and the Japanese.

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