CROP Poverty Brief

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Mobilizing critical research for preventing and eradicating poverty

THE POST-2015 DEVELOPMENT AGENDA: THE WAY FORWARD

Thomas Pogge

In the previous Poverty Brief[1] we argued that the proposed new Millennium Development Goals (MDG) will not address the structural causes of poverty. In this brief, the third in the series on the MDGs, we continue our critique of the MDG process through an examination of what needs to be done next.

The most important fact to remember about the MDG period (1990–2015) is that, in relative terms, the global household income share of the poorest 30 percent of humanity *declined* by roughly 20 percent.[2] Yes, extreme poverty was alleviated; but progress would have been *much faster* if the poor had participated proportionally in global economic growth. The lesson: all the heavy lifting of people out of monetary poverty has taken place on a descending escalator. Many genuine efforts really have made a positive difference to the poor, but these have not been enough to enable them to overcome the massive headwinds they face from the newly globalized economic and political order. To end poverty once and for all, we must attack its structural roots: the national and supranational institutional arrangements that have been designed by the rich for the rich, which continue to marginalize the world's poor, both economically and politically.

Reflecting this insight, the new development goals must move beyond a list of wishes, toward clear institutional reform goals that specific, competent actors—prominently including the affluent states—are charged with implementing according to a firm schedule. In order to make a tangible impact on poverty a Human Development Fund needs to be instituted to fund a new set of Goals. Goals which are morally plausible and politically realistic could include the following:

1. There are barriers that distort trade and diminish trading opportunities for poor populations. To deter such barriers and help offset their effects, rich countries providing subsidies or export credits shall commit to paying a share of the value of such subventions into a Human Development Fund. This share would be 2 percent in 2016 and rising to 30 percent in 2030, raising about $6 billion to $90 billion a year over that period.
2. Pollution and climate change impose huge costs on current and future populations, especially the world's poor. To help deter pollution and offset its effects, all countries shall agree to pay a fee to the Human Development Fund, based on per capita carbon dioxide emissions that exceed four metric tons per person per year. This fee would be $1 per excess metric ton in 2016 and rise to $8 in 2030. This would yield about $14 billion rising to $100 billion annually.
3. Arms exports to the developing world fuel conflicts, civil wars and violent repression. To help deter such sales and offset the harm they produce, arms-exporting countries shall agree to pay a share of the value of such exports into the Human Development Fund. This share would be 5 percent in 2016, rising to 40 percent in 2030, raising an amount rising from approximately $1.4 billion to $10 billion annually.
4. Mispriced trade among subsidiaries of the same multinational corporation enables it to realize its profits in jurisdictions where tax rates are low or zero. To help deter such profit shifting and help mitigate the effects of capital outflows and lost corporate tax revenues on poor populations, states shall agree to require multinational corporations to pay to the Human Development Fund an alternative minimum tax (AMT) equal to the amount by which all national taxes they pay fall short of a minimum percentage of their worldwide profits. This minimum percentage is to be set at 5 percent in 2016 and increase to 12 percent in 2025. All states shall commit to cooperate in enforcing the AMT against any companies operating in their jurisdiction.[3]

This Poverty Brief argues that:

- The MDG period has seen a reduction in extreme poverty, but, in relative terms the income share of the poorest households has declined.
- The structural roots of poverty need to be addressed, requiring new development goals which lead to clear institutional reform.
- A Human Development Fund is proposed to finance a range of institutional reforms.
- Such a Fund can be financed from a series of fees and levies designed to achieve a clear set of developmental goals designed to address key global institutional challenges.

5. To attract capital, some jurisdictions allow the maintenance of secret bank accounts, whose real owners and beneficiaries remain anonymous. Between $21 and $32 trillion are estimated to be so hidden, which amounts to between 9 and 15 percent of all private wealth on this planet.[4] Because such accounts facilitate corruption, embezzlement, drug trading, terrorism and human trafficking, states shall commit to ending this practice as soon as reasonably possible by imposing collective sanctions on the offending banks and countries. Funds whose beneficial owners remain undisclosed in 2020 must be regarded as ownerless.
6. The populations of many developing countries are burdened by large debts accumulated by their rulers for purposes that were not approved by or beneficial to the general public. In future such loans are to be discouraged by states jointly stipulating that loans are to be recognized and enforced as genuine national obligations only if the borrowing government has been certified as minimally legitimate at the time of the loan by a Southern Debt Expert Committee (SDEC). Lenders and their home countries must promise not to exert pressure on countries to service debts incurred by previous rulers who were not certified by the SDEC.
7. The populations of some developing countries suffer from massive natural resource outflows that are not approved by or beneficial to the people. States shall agree that future such exports will be vetted by a Southern Resource Export Expert Committee to determine whether they are acceptable to or serve the interests of the population. Should the committee find that neither condition is met, then subsequent acquisitions are to be discouraged and partly compensated for by requiring buyers to pay a percentage of the value of the acquired resources into the Human Development Fund. This percentage can be gradually increased during the 2015–30 plan period.

Conclusion and Recommendations

The Human Development Fund would not merely discourage and reduce harmful activities. It would also raise funds for realizing other institutional reforms, such as:

> To stimulate pharmaceutical innovation to fight diseases of the poor and to improve access to new medicines, states shall agree to establish a Health Impact Fund that offers to reward any new medical advance based on its health impact, provided it is sold at cost. The HIF will be financed initially at $6 billion annually and then expanded as experience warrants.[5]

By working to implement these global institutional reforms, the most affluent countries would make a positive start toward addressing and reversing the relentless economic and political marginalization of the poor. This reversal should be supported by commencing a practice of carefully examining the expected impact of proposed global institutional design decisions on global poverty. Additional support should come from universal national development goals focusing on the full realization of human rights, universal access to adequate social security and social services, and the rapid elimination of excessive economic and social inequalities. Total eradication of severe poverty by 2030 is the right idea. But to make this happen we need more than just a universal agreement that this should happen.

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NOTES

1 Pogge, Thomas; Gabriele Köhler; and Alberto Cimadamore (2013) “Poverty and the Post-2015 Deveopment Agenda: A reaction to the High-Level Panel Report (HLPR)”, *CROP Poverty Brief*, September 2013, Bergen: CROP

2 Branko Milanovic, principal economist in the World Bank’s Development Research Group, reports that this segment’s share declined from 1.52 percent in 1988 to 1.25 percent in 2008. In addition, we can learn from Piketty and Saez that, during the same period, the global household income share of the richest 1/100 of one percent of the US population doubled from 0.82 to 1.66 percent. In 2008, the first group consisted of 2,100 million people, the second of 0.03 million. Thomas Piketty and Emmanuel Saez, “Income Inequality in the United States, 1913-1998,” *Quarterly Journal of Economics*, 118(1), 2003, 1-39. See Table A3 in tables and figures, http://elsa.berkeley.edu/~saez/, updated to 2012.

3 A similar idea was recently floated by German Finance Minister Wolfgang Schäuble. See www.afp.com/en/news/topstories/germany-urges-ecb-reduce-eurozone-liquidity-report/.

4 James Henry, The Price of Offshore Revisited (Tax Justice Network 2012), p. 5, available at www.taxjustice.net/cms/upload/pdf/Price_of_Offshore_Revisited_120722.pdf. Total private wealth worldwide is estimated at $223 trillion in *Global Wealth Report 2012* (Credit Suisse 2012), p. 3, available at www.thefinancialist.com/wp-content/uploads/2012/10/2012-GlobalWealthReport-.pdf.

5 See www.healthimpactfund.org.

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