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DECEM: FINANCIAL ALTERNATIVES FOR DEVELOPMENT AID (3)

*Taxation of personal wealth: a concept of global justice*²

The economies of the industrialized nations that integrate the steam machine of the capitalist system, in which the developing economies conform the last wagon, have robust taxation systems that enable the public administrations to raise taxes efficiently, through the progressive taxation of the economic activity of individuals with different income levels, who enjoy the stability provided by the well-known welfare state.

A taxation system based to a certain extent on the principle of redistribution, a principle that penalizes with higher rates the otherwise richer individual, who also has higher income levels. A taxation system, based on the principle of solidarity among the high and low incomes, that implies a shift of resources between those who have in excess (high income individuals) and those who lack them (low income individuals).

A current society in which we do not decide where we are born. A current society in which we do not decide when we are born, how much we inherit from our ancestors, or with what talents we count on to fight for a piece of that cake called market. A society that has so far been solidary at the nation-state level, and in the case of the European Union at a continental level.

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² This is the third article of the decem series, a series of ten articles fundamentally innovative that aim at the proposal of alternative financial mechanisms to considerably raise the amount of funds available for development in the third world. Throughout the series, the author will stress the implementation aspects of the suggested ideas and will propose arguments for and against.

A current society, that of the so-called rich or industrialized world, that cannot continue looking in the wrong direction, and must face the extreme inequality in income and wealth between the first and third world. A trend that has only worsened and seems to reach no inflection point, a necessary inflection point.

ORIGINS OF THE REDISTRIBUTIVE SYSTEM

The principle of redistribution is essentially solidary and describes the society of the welfare state that guarantees universal and indiscriminate access to services such as education or healthcare. In this way the income tax is increased according to income level, in a taxation environment commonly known as progressive.

The origins of the progressive taxation system that conforms the basis of the principle of redistribution, date back to the time of the economist Adam Smith, who in his masterpiece *The Wealth of Nations*, states that “the indolence and vanity of the rich is made to contribute in a very easy manner to the relief of the poor, by rendering cheaper the transportation of heavy goods to all the different parts of the country”, making explicit reference to the higher fees affecting the rich class’ carriages, fundamentally heavier than the poor class’ carriages.

Thomas Jefferson argued towards the beginning of the XIX century that the tariffs to imports were a way to tax the rich, since the poor would only purchase goods within the country’s own borders, and as a result, would not pay tariffs related to imports.

Nowadays there are taxation systems more progressive than others. Generally speaking, societies with an advanced welfare-state have in common a higher taxation of high incomes, higher than the taxation of other societies with less social services otherwise considered universal or of indiscriminate access.

Within a relatively homogeneous economic space like that of the United States, the worker does not have any incentives to sign for a fiscal regime more favoring and less punitive. In a barely homogeneous economic space like that of the European Union, even if large differences among fiscal regimes like those of Sweden or Ireland are taken into account, there is no geographic mobility in the labour market that measures up with that of the United States, a geographic mobility making more progressive fiscal regimes fear a massive shift of workers to other regimes because of less punitive fiscal systems.

INCREASE OF INTER-NATION INEQUALITY

The millenium development goals set by the United Nations in 2000 aiming at the reduction by half of extreme poverty before 2015 require, among other things, the ability and skills to measure the levels of extreme poverty in the developing world.

In that direction there has been much controversy among renowned economists over the last few years with regards to how to evaluate poverty and the trend describing it. Whereas on one hand Columbia’s economist Xavier Sala-i-Marti derives from his exhaustive work that extreme poverty has been declining, the chief economist at the

research department of the World Bank, Branko Milanovic, presents a less optimistic scenario in his masterpiece *Worlds Apart*.

The conclusion, *grosso modo*, if one focuses on the 10,000 feet view, is that China and India with their sustained growth, are succeeding at largely reducing extreme poverty within their borders, whereas other less populous nations, fundamentally in Africa and Latin America, are considerably lagging behind.

A WORLD ON THE VERGE OF DISASTER

Sooner or later the basis of international solidarity will have to be addressed in a serious and orderly manner, an international solidarity that only exists in the imagination of a political class anchored in problems of the past and lacking reactivity to the present and future problems that threaten today's world.

The society of the XXII century will look back (in anger) and will not be able to understand the extreme disparity between high and low incomes both at an intra and inter-nation level. A disparity that does not necessarily respond to the concept of global justice.

An interplanetary observer that was sent to planet Earth and conducted an objective and scrupulous analysis of the current situation would not digest the coexistence, in the same geographic space, of such large differences, differences that were never before of such caliber and consistency across nations and territories.

It is a concept of global justice. If we would never tolerate a humanitarian crisis in Andalusia, Bavaria or Texas, if we would never let a considerable number of fellow citizens of our own country literally die of hunger and suffer the consequences of a global epidemic such as AIDS, away from every sort of healthcare service, why in a globalized world that benefits us to a large extent, do we tolerate or perhaps ignore the same problems that hit hard millions of individuals of the very same planet?

The problems of a globalized world are no longer local problems with no impact on the rich world. The global issues are problems that sooner or later will have an extraordinarily negative impact on a society that, so far, has been unable to provide solutions directly proportional to the problems of a world in free fall, at an environmental level, at a human level, at an ethical level, and perhaps and why not, in process of extinction.

A TAX ON WEALTH

A recent trend in the taxation arena has benefited the wealthy with the progressive elimination of the wealth tax. This is a logic argumentation, if it is taken into account that the wealthy individual usually generates abundant yearly income that is correspondingly taxed through the income tax. The wealth tax would incorporate, in this line of argumentation, a second level of disproportionate taxation and would have a negative impact leading to the massive shift of wealthy individuals to other less punitive and hence more permissive fiscal regimes.

However the precedent line of argumentation is not the only one, nor is it the most reasonable. Wealthy individuals become wealthy by working hard and constantly, by having great ideas, by having market and product insight. Wealth is also generated from inheritance, from luck, from the profits of funds invested in investment vehicles that destabilize and speculate by short-term investing in developing economies, from the profits of funds invested in multinational firms' equity, multinationals that literally exploit human and natural resources of nations that welcome them as if they were *Mr Marshall*.

It is a double-edge sword, it is a thin line that separates the income earned fairly from the one that has been obtained by luck or in a rather random way. A difficult task, to differentiate which is which.

In an unequal world lacking mechanisms of redistribution and international solidarity, in an unequal world hungry and needy of solutions able to considerably increase the amount of funds available for development, it is necessary to remind the wealthiest individuals, to which one more million is a simple game of rivalry among their counterparties.

It is not a strategy of imposing radical approaches from the poorest to the less numerous wealthy class, owner of the economic and oftentimes political power. It is not a major force game in which populist argumentations beat the market theory, that strongly argues for a market able to compensate the failures of the world economy.

A world in which those who earn most do not contribute notably and become a reference with their behavior, is not a fair world. A fair world is not a utopy if we believe it is feasible. If the basis of the system that has enabled the generation of phenomenal wealth is not redefined, each and every one of those wealthy individuals will disappear along the rest of society in a world that faces more and more difficult challenges to cope with.

In the above line of reasoning, we propose that 10% of personal wealth above 100 million dollars be invested in a development fund that conforms the basis of this series of articles on funding for development. In the same way the corporate contribution suggested in the previous article works, this contribution is still owned by the wealthy individual and only the profits from the investment strategies are devoted to development aid.

Only with ideas simple to implement and powerful in their conception and scope, shall we change the current trend, a vital turn in a world on the verge of destruction. Dinosaurs disappeared because of the sudden appearance of a meteorite. The humankind is that meteorite that surprisingly points towards our own destruction. But different from dinosaurs the human being is proud of being rational. In the human being's rationality we trust.

