RULES OF REDISTRIBUTION AND FOREIGN AID:
A proposal for a change in the rules governing eligibility for foreign aid

Branko Milanovic

ABSTRACT

When income is redistributed at national level, the minimum requirement is that the transfers should be progressive, that is flow from richer to poorer individuals. The same rule should hold at the global level: it is not sufficient that transfers be from a richer to a poorer country. But normally we do not know who are the taxpayers who finance international aid nor who are the beneficiaries. We can nevertheless establish the rules such that the likelihood of a globally regressive transfer is minimized. This implies taking into account countries’ national income distributions, that is penalizing countries with highly unequal distributions since there exists a non-trivial probability that the transfers may be received by people richer than rich countries’ taxpayers who finance such transfers. Some rules for changing eligibility criteria for aid are proposed.

Keywords: Aid, redistribution, global income distribution
JEL classification: F35, D3
Number of words: about 5,300

1 I am grateful to Sanjay Reddy, Thomas Pogge, Leif Wenar and the participants of the conference “Equality and the New Global Order” held at JFK School of Government at Harvard (May 11-13, 2006) for very helpful comments. The views expressed here are author’s only and should not be attributed to the organization with which he is affiliated.
1. The rules of redistribution at the global level

At the national level, social transfers have two functions: one is social insurance and income smoothing as is the case with insurance for the old age (pensions) or unemployment insurance. Another function is purely redistributive: to help, without any direct quid pro quo, the poorest members of the society. These are social assistance or welfare transfers. For welfare transfers, a general and minimum requirement is that they be pro-poor or progressive. This means that they should transfer money from richer to poorer households. For clearly the whole function of poverty alleviation would be negated if the poor were to transfer money to those who are better off than themselves.

When we move to the global level, the first function of social transfers, insurance, cannot exist because it requires the existence of a government that collects taxes and social security contributions and then disburses them later to those who have contributed. Thus in order to have social insurance, we need to have a government with a taxation authority, a thing which does not exist at the global level. However, the second function—social assistance, that is, transfer of funds according to need only—does exist even if its size is modest. These transfers take two forms: bilateral grants or aid given by the governments of the rich countries (mostly OECD) to the governments or private entities in poor countries; and soft loans disbursed by international financial institutions. These loans, like e.g. those of the World Bank-affiliated IDA carry minimal interest rates and long maturities. Hence the subsidy element is substantial and the “appellation” of aid is appropriate.².

Now, it is not unreasonable to require that international social assistance should follow the same rules as national social assistance: transfers need to flow from the rich to the poor, i.e. to be progressive. It is often thought that the very fact that they flow from a rich to a poor country is sufficient for this. But this is not the case, for it does not take

² This is not the case with (say) IMF loans which carry an almost market rate of interest and have a very small element of concessionality.
into account income distributions in the two countries. The transfers are in reality taxes paid by the residents of rich countries and received by the residents of poor countries. But we cannot be sure that the average tax payer in a rich country is richer than the average beneficiary in a poor country. And indeed it is often argued in the popular press that some of the international transfers end up lining up the pockets of rich people in poor countries. Then the questions can legitimately be asked: why should relatively poor people in rich countries transfer money to the rich people in poor countries? And indeed such transfers would be globally regressive.

But international transfers have also domestic implications. Consider the following situation. Let the taxpayer in the rich country be relatively poor (within that country) while still richer than the beneficiary in the poor country. Thus, while the transfer will be globally progressive, it will, on the other hand, increase inequality in the rich country (the poor in the rich country will now be worse off compared to the rich). Moreover, to continue with the same example, let the recipient in the poor country be relatively rich—compared to other people in his/her country. Then the transfer would worsen the national income distribution in the poor country as well. Graphically, this is the situation depicted in Figure 1 where the taxpayer’s income is denoted by T, and the beneficiary’s income by B. This type of transfers is also shown in Table 1 in the first column.

Table 1 shows different possibilities which exist depending on the relative position of rich countries’ tax payers and poor countries’ beneficiaries. There are eight of them. Note first that in all cases, aid will reduce the difference between mean incomes of the two countries. This can be called Progressivity 1. But only when the taxpayer T is better off than the beneficiary B will there be global progressivity: the transfer will reduce global income inequality. Therefore all transfer types 5 through 8 are ‘eliminated’ as undesirable since they would worsen global income distribution.

3 “Income distribution” here and in the rest of the text means either distribution of income or distribution of consumption.
4 We assume throughout, as is standard, that the transfer is not so large that it reverses the relative positions of the two individuals involved. Thus, if T>B before the transfer, it remains so after the transfer.
But even if we satisfy these two progressivities (global and Progressivity 1), it does not follow that transfers will be as desirable and efficient as they should be. Moreover, they may not be politically sustainable if they lead to increased inequality in both countries, or in either of them. This is the case for transfer types 1 through 3. In the end, only transfer No. 4 will satisfy all the desiderata. It will reduce mean income differences between the counties, and improve global as well as national income distributions. This is the transfer which goes from a rich individual (taxpayer) in the rich country to a poor individual (beneficiary) in a poor country.
Table 1. Different types of transfers (1 to 8) and their effect on global and national income distributions

<table>
<thead>
<tr>
<th>Transfer type</th>
<th>T better off than B</th>
<th>T worse off than B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Taxpayer’s (T) position in rich country</td>
<td>Poor</td>
<td>Poor</td>
</tr>
<tr>
<td>Beneficiary’s (B) position in poor country</td>
<td>Rich</td>
<td>Poor</td>
</tr>
<tr>
<td>Distribution in rich country</td>
<td>Worse</td>
<td>Worse</td>
</tr>
<tr>
<td>Distribution in poor country</td>
<td>Worse</td>
<td>Better</td>
</tr>
<tr>
<td>World distribution of income (among persons)</td>
<td>Better</td>
<td>Better</td>
</tr>
<tr>
<td>Difference in mean incomes between rich and poor country (Progressivity 1)</td>
<td>Reduced</td>
<td>Reduced</td>
</tr>
</tbody>
</table>

Note: All improvements in income distributions are shaded.
2. How to formalize the rules?

To define the “best” possible transfer we need to deal with two parts of the issue, that is, we need to “locate” the taxpayer and the beneficiary in their national as well as in the global distributions. The latter is especially important since it allows us to situate the beneficiary’s vis-à-vis the taxpayer. This is all the more important since the calls to improve the efficiency of aid deal precisely with this part of our problem: how to avoid the situation where beneficiaries are rich people in poor countries who are better off than taxpayers who finance the transfer. An obvious way to do this is to improve quality of projects which are financed by aid, that is, to target them better on poor people in poor countries. Hence, for example, the recent emphasis on pro-poor growth. A similar role is supposed to be played by better governance in recipient countries. But while improvements in targeting and efficiency of aid are important, their results are slow to materialize and the effects of the projects are often unclear. On an a priori basis, however, we still should be able to say something about the ways to minimize the likelihood of globally regressive transfers. To this issue we turn next.

a. The idea illustrated: Single randomness (beneficiaries are not known)

We take the targeting of projects financed by aid as given, i.e., we assume that we are unable to tell a priori whether a project in one country is more likely to help the poor than a project in another country, and look at income distributions in the two countries to assess where the probability of a “wrong” (regressive) transfer will be lower.\(^5\) The idea is simple: if everybody (or almost) everybody in a poor country is poorer than everybody (or almost everybody) in a rich country, then the probability of a regressive transfer will tend toward zero. In the extreme case, illustrated above in Figure 1, when no one in a poor country is better off than anyone in the rich country, there is no overlap of the distributions, and all transfers are progressive at the global level. To achieve global progressivity it does not then matter who B is.

But the cases of no overlap are very rare. Consider a more realistic case where there is some overlap and where we have a choice between transferring some funds from the US (rich country) to either Ecuador or Egypt (poor countries). We choose these two countries because they have the same mean per capita income (calculated from household surveys and converted in dollars of equal purchasing power) of about $PPP 1,470. But their income distributions are quite different. Figure 2 shows mean income for each percentile of income distribution in the US, Ecuador and Egypt (all the data are from the year 2002 and are expressed in 2002 dollars of equal purchasing power). We can easily see that people in Ecuador’s top income percentile are richer than almost 60 percent of the US population, and were they to capture the benefits of aid, the likelihood of a regressive transfer would be high. (The likelihood would still less than 100 percent because the transfer could be financed out of income of the richest 40 percent of Americans.) This is in contrast to the situation of Egypt where the top percentile’s income is higher than the income of only 37 percent of Americans. The likelihood of a regressive transfer still exists but is much less. Thus, if we know nothing about the quality of aid-financed programs in the two countries, we should, in principle, prefer that the funds be disbursed to Egypt because of lower likelihood of a globally regressive transfer.

---

6 The Gini coefficients are 50.7 for Ecuador and 34.3 for Egypt.
This intuition needs to be formalized because looking at the top decile alone is not sufficient. We need to look at the entire income distribution. To see why suppose that Ecuador’s distribution is so extremely unequal that almost all people (say, 99 percent) have incomes that are at the subsistence level, while the top percentile’s income is higher than that of the American top percentile. Then, if the distribution of benefits is random, in 99 percent of cases the transfer could still be globally progressive. Looking at the position of the top percentile only would be misleading.

To operationalize this, we shall assume that the rich country’s taxpayer is the person with national mean income which is normally a person around the 60th percentile of income distribution (this assumption will be abandoned below). In the US, the mean income is $PPP 18,200. Then, we can ask, if the distribution of benefits in Egypt and
Ecuador is not known, what is the likelihood that the transfers will be globally regressive? The answer to that question is provided by the cumulative distribution functions in Figure 3. Almost no one in Egypt enjoys the level of income equal to the US mean income while about 1 percent of Ecuadorians do. Behind the veil of ignorance regarding project efficiency, transfers to Egypt therefore dominate transfers to Ecuador.

Figure 3. Cumulative distribution functions for the United States, Ecuador and Egypt (year 2002; in 2002 dollars of international purchasing parity)

b. Introducing complications: Double randomness (neither taxpayers nor beneficiaries are known)

So far we had assumed that the position of the rich country’s taxpayer is known, and we have looked at the randomness among recipients only. What do we know about taxpayers’ incomes which would help us determine whether a transfer is progressive or not? Consider the following simple example. Line α in Figure 3 shows the distribution of pre-tax income (gross income) amongst taxpayers in a rich country. Curve β, which is generally steeper because of progressive tax rates, shows the distribution of taxes paid by the taxpayers. The income of the median taxpayer will be M but this is not what we are interested in. We are interested in the income of the person who paid the median dollar transferred to the poor country. In other words, we are interested in where the random or median dollar that financed aid came from. We shall call this person the person who paid it, the “relevant taxpayer”. The random tax dollar is the median dollar among all tax dollars when they are arranged (ranked) according to the income of the taxpayer. Let the median or random tax dollar belongs to the taxpayer denoted R. Note that the point R divides the distribution of all tax dollars into two equal halves; the area under the curve β to the left of R is equal to the area to the right of R. The relevant taxpayer R must be richer than the median taxpayer M so long as the tax system is progressive. 7

7 An alternative approach to finding out the relevant taxpayer would consist in calculating the expected gross income of taxpayers where weights are given by the share of taxes paid. This can be written as

$E(y) = \sum_{0}^{\text{max}} y_i \frac{t_i}{T}$

where $y$=gross income, $t$=taxes paid by $i$-th tax payers, and $T$=total tax intake. Since tax rates are progressive, this alternative definition of the “relevant taxpayer” will yield higher income than the median-based definition. I owe this alternative definition to Thomas Pogge.
Figure 4. Taxes paid and gross income: an illustration

\[ \alpha, \text{ gross income} \]
\[ \beta, \text{ taxes paid} \]

Dollars

Gross income (in dollars)
The richer the relevant taxpayer R, the less the likelihood of a regressive transfer (for a given random distribution of benefits in the poor country). When will the relevant taxpayer’s position move to the right? There are two simple cases. If the tax system in a rich country becomes more progressive and the pre-tax income distribution stays the same, then the relevant taxpayer will be richer. Similarly, if the underlying pre-tax income distribution in the rich country becomes more unequal, and the tax schedule remains the same, the relevant taxpayer will again become richer. In other words, with these two changes in the rich country (more progressive taxation, more unequal pre-tax distribution), the likelihood of a globally regressive transfer lessens.

We can now combine the two sides: rich and poor countries. Consider again transfers from US to Ecuador. Let us determine first the relevant taxpayer in the United States. In Figures 5a and 5b, we show gross per capita income for each percentile in the United States in the year 2000 and both the direct taxes and the average effective tax rate paid. (Individuals are ranked by gross per capita income and the entire US distribution is divided into 100 percentiles.) The left panel shows total per capita taxes paid which, as we expect, rise faster than gross per capita income between the 20th and about 95th percentile of gross income distribution. The right panel shows the effective tax rate which more or less increases steadily from 0 percent to 30 percent.
Figure 5. Gross per capita income and direct per capita taxes paid (left panel), and effective tax rate (right panel), USA 2000

Notes: Left panel. Both direct taxes paid and gross income expressed in dollars per capita, in logs. Source: Calculated from LIS database available at http://www.lisproject.org/.

Next, we look at the distribution of taxes paid by gross per capita income (see Figure 6) and find income level such that it divides the distribution of taxes paid into two equal halves. This income is $46,000 per person (per year). In other words, it means that individuals having gross per capita household income of $46,000 and less have paid exactly one-half of all direct US taxes. The income level of the relevant taxpayer, $46,000 per capita, corresponds to the 91st percentile of US income distribution.8

But to see whether this individual may be richer or poorer than a random beneficiary of foreign aid, we must look at his/her disposable income (not gross). Disposable per capita income of people with gross per capita income of $46,000 per year, is $33,700. What is then the probability, under the assumption of random

---

8 Using the criterion mentioned in the footnote above (mean weighted per capita gross income where weights are tax shares), the “relevant” taxpayers income is $63,500. It corresponds to a position between the 95th and 96th percentile of US income distribution. (Note that the two top percentiles in the US pay more than 21 percent of all direct taxes.)
distribution of benefits, that the transfer from a US taxpayer to an Ecuadorian beneficiary will be globally regressive? To find this out, we need to calculate the percentage of Ecuadorians that have an income greater than $33,700 (in PPP terms). The answer is, significantly fewer than 1 percent.

Figure 6. Cumulative percentage of taxes paid and income per capita, United States, 2000

![Cumulative percentage of taxes paid and income per capita, United States, 2000](image)


It may be thought that the United States because of its unequal pre-tax income distribution is likely to have the relevant taxpayers situated relatively high in the income distribution, and that because of its high average level of income, the relevant taxpayer’s absolute income is likely to be much higher than in other developed nations. This is partly true. Consider the example of Sweden. The random tax dollar is paid by the taxpayer at the 77th percentile of income distribution. The relevant taxpayer’s gross per capita income is just a shade under 200,000 kronen per year which using the 2000 PPP exchange rate of 10.09, gives a gross per capita income of about $PPP 20,000. This is
less than one-half of the relevant tax payer’s income for the United States. The relevant Swedish taxpayer’s disposable income is $PPP 13,575 per capita per year. Consequently, transfers from Swedish tax payers are more likely to be globally regressive than those financed by US taxpayers. The difference however should not be exaggerated as the two last lines in Table 2 make clear.

An obvious, and important, conclusion is how small is the likelihood that transfers financed by rich countries’ taxpayers may end up in the pockets of people who are richer than the taxpayers. This issue is indeed one of legitimate concerns voiced in discussions regarding equity ands efficiency of foreign aid. But the calculations shown here dispel the notion that such instances are common. We have seen that even transfers that are nationally distributionally neutral, i.e., which would benefit equally the rich and poor in the recipient countries, have a quasi nil chance (between just slightly over 0 percent and less than 2 percent) to be globally regressive. This result is, of course, the product of two strong facts of modern life. First, the existence of extremely large differences in mean incomes between rich and poor countries (which means that often the two distributions do not overlap at all). Second, the existence of progressive tax systems in rich countries which ensure that the random tax dollar that finances foreign aid is contributed by very rich people, with incomes far above the country mean.
Table 2. Donors and likelihood of regressive transfers

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean gross per capita income (PPP dollars)</td>
<td>22,502</td>
<td>15,620</td>
</tr>
<tr>
<td>Gini of gross per capita income</td>
<td>44.7</td>
<td>31.0</td>
</tr>
<tr>
<td>Concentration coefficient of direct taxes */</td>
<td>67.8</td>
<td>41.7</td>
</tr>
<tr>
<td>Gini coefficient of disposable per capita income</td>
<td>40.2</td>
<td>27.4</td>
</tr>
<tr>
<td>Tax rate paid by the relevant taxpayer (in percent)</td>
<td>20.6</td>
<td>25.8</td>
</tr>
<tr>
<td>Highest effective (average) tax rate paid (in percent of gross income)</td>
<td>30.5</td>
<td>38.8</td>
</tr>
<tr>
<td>Position of the relevant taxpayer in gross per capita income distribution (percentile)</td>
<td>91</td>
<td>77</td>
</tr>
<tr>
<td>Gross income of the relevant taxpayer (in $PPP p.a.; per capita)</td>
<td>46,061</td>
<td>19,735</td>
</tr>
<tr>
<td>Disposable income of the relevant taxpayer (in $PPP p.a.; per capita)</td>
<td>33,676</td>
<td>13,575</td>
</tr>
<tr>
<td>Likelihood of regressive transfer to Ecuador (in percent)</td>
<td>Quasi nil</td>
<td>Less than 1</td>
</tr>
<tr>
<td>Likelihood of regressive transfer to Egypt (in percent)</td>
<td>Quasi nil</td>
<td>Less than 2</td>
</tr>
</tbody>
</table>

*/ Concentration coefficient of taxes paid when individuals are ranked by their per capita gross income. Source: Calculated from micro data from Luxembourg Income Study.

The difference among donors is, in its implications, similar to the difference among the recipient countries. Donor countries with (a) higher average income, (b) more unequal underlying (gross) income distributions, and (c) more progressive tax schedules are likely to have richer relevant tax payers. Hence transfers financed by their taxpayers are less likely to be globally regressive and their contribution to global redistribution ought to be greater. To make it simple: the transfers should flow from rich and unequal societies to poor and equal societies.\(^9\)

---

\(^9\) That societies that are, on average, richer and more unequal should finance more transfers accords with our intuition. The same cannot be said for a more progressive (domestic) taxation. However, if two countries have the same mean incomes and distributions of gross income but differ only in the level of tax progressivity, the median tax dollar from a country with a more progressive tax schedule will come from a richer individual, and will be less likely to result in a globally regressive transfer.
c. Caveats

In order to be clear about our “rules” it is important to note four things however. First, this result does not depend on national targeting of transfers in recipient countries.

Second, we focus on minimizing the likelihood of making a globally regressive transfer, not on maximizing the expected income distance between T and B. To explain. If targeting of transfers in two countries, X and Y (where X has a lower median and mean income), is the same, this means that in terms of national income distributions, the income position of B is random. This in turn implies that, within national distributions, the expected income of B will be equal to the national median. Since X’s median is less than Y’s, the expected income distance between the rich country’s taxpayer and a (random) beneficiary will be greater in the case of country X than Y. Yet the likelihood of a globally regressive transfer—a thing which interests us here—may still be greater for X than for Y. This is illustrated in Figure 4. Note that the distance T-B_X is greater than the distance T-B_Y: with the assumption of random distribution of benefits, the expected beneficiary is likely to be poorer in X than in Y. But the area of X’s income distribution to the right of T is greater than the area of Y’s income distribution to the right of T. Or, in other words, the probability of a regressive transfer will be greater in the former case.
BM: redraw this figure and do shaded areas

Figure 7. Difference between globally regressive transfers and maximization of likely income gain

Note: Area under each country’s curve equals 1.

Third, other criteria may be introduced as, for example, the just mentioned maximization of the income distance between the taxpayer and the expected beneficiary, or maximum reduction of global poverty where only the likelihood of beneficiaries being below some poverty line matters, or maximum reduction of the poverty gap etc. But these are all secondary objectives. We believe that, as in national redistributions, the primary and the minimum objective of international aid must be that the transfers be progressive.

Fourth, the really important factor is the percentage of people in the poor country who are better off than the taxpayer in the rich country (that is, the thickness of the tails in Figure 7), not the relative position of the richest citizens of X vis-à-vis the richest citizens of Y. For example, suppose that the richest Xs are still richer than richest Ys, but that both are poorer than the taxpayer who financed the transfer. Then, the likelihood of a globally regressive transfer will be zero in both cases. (And in that case, we might prefer to resort to another objective, e.g., maximize the expected difference between T and B.)
The implication of the analysis so far is that the eligibility criterion, as for example for IDA lending which currently takes into account only the level of country’s GDP per capita\textsuperscript{10}, should be complemented with an indicator of inequality. The indicator should be generally available and reasonably easy to calculate. The objective is to adjust eligibility for aid by taking into account countries’ domestic levels of inequality, penalizing highly unequal countries and helping those that are not. One possibility would be to do what we have just described: focus on the thickness of the right-end tails of countries’ income distributions, for example on the percentage of people with income above $\text{PPP} 5,000 per year (which is about twelve times the global absolute poverty line), and calculate the probability of a regressive transfer. Another, simpler, possibility would be to adjust GDP per capita by the ratio between the mean and the median income in the country. If income distribution is very unequal, the mean-to-median ratio will be high.\textsuperscript{11} Thus, the inequality-corrected GDP per capita will be increased in high inequality countries which could lose eligibility for interest-free loans. Consider Bangladesh and Nigeria. These two countries have approximately the same level of income, but inequality is much greater in the latter. The mean-to-median ratio is 1.7 in Nigeria and 1.2 in Bangladesh. The introduction of inequality-adjusted income will therefore penalize Nigeria and could possibly disqualify it from receiving soft loans as long as inequality remains high.

The approach suggested here is, in one respect, directly opposite to the approach discussed by Thomas Pogge.\textsuperscript{12} Pogge’s Resource Tax would be funded from the proceeds made exploiting global exhaustible resources and would be targeted to help the poor (regardless of where they live) through the action of a facilitating agency. Now, Pogge says, consider two countries with the same per capita income but differing in that one has more poor people (because its domestic inequality is greater). Then, some people

\textsuperscript{10} The IDA cut-off point above which a country cannot qualify for soft loans was $865 in 2002.
\textsuperscript{11} Measures of income (poverty headcount) and inequality have been combined before as in Sen’s poverty measure.
might argue that more aid should be disbursed to that country (because it contains more poor). Pogge is sympathetic to this view but rejects it because it would provide a perverse incentive to the elites in poor countries not to care about the poor. For this reason, Pogge prefers to stick to the criterion of average income rather than to introduce the issues of domestic income distribution. Our approach would penalize the country with greater income inequality, with the rationale that a transfer to such a country is more likely to result in a globally regressive transfer than an equivalent transfer to a more equal country with the same GDP per capita.

3. Possible objections

There are two possible objections to taking into account distribution of income when making decisions on aid. The first is a technical one: the issue of knowing what different countries’ distributions are and operationalizing the idea. The second is a more fundamental one and concerns the principle of sanctions or punishment in international affairs. We shall deal with them in turn.

The technical objection is that the data on income distribution are not as easily and frequently available as GDP data. However, this is an objection whose force is surely weaker today that it was ten or twenty ago. Major strides in the availability of income distribution data have been made recently. The data are available practically for all countries in the world, at five-yearly intervals at least. More serious is the issue of the possible incentives to temper with such data were they to be used in deciding the eligibility for aid. Although GDP data can also be falsified (and have been), it is arguably true that their deliberate falsification is more difficult since they are related to a number of other observable indicators more than income distribution. Moreover, slight changes in the definitions of income or expenditures can produce significant changes in inequality results. Thus for example a seemingly innocuous decision as to how to value home production or how to impute rent to owner-occupied housing can result in major upward or downward revisions in inequality. What is major? In this context it means by 2-3 Gini points which for most countries amounts to 5 to 10 percent of total inequality. Arguably,
it is easier to fiddle with some 10 percent of inequality than with 10 percent of GDP. Yet with greater independence of statistical offices and the acceptance of international standards in household surveys (plus the fact that for many poor countries that are eligible for soft loans, a lot of household survey work is done by international organizations, including the World Bank), the danger of deliberate manipulation of the data can be minimized. Finally, the last issue of operationalization concerns what measure of inequality to take and how to relate it to the average income (GDP per capita). This needs to be pretty simple. One way to do it is, as we have suggested, to use the mean-to-median ratio.

A more fundamental issue is the one of penalization itself. The logic behind making it more difficult for countries with unequal distributions of income to qualify for soft loans is the same as the logic of international economic sanctions. They are undertaken to “punish” an elite which may lead the country in a wrong or dangerous direction; yet, in the short-term, the sanctions often end up by punishing the population on whose account they are ostensibly implemented. Here too, we deprive a country of soft loans in order to put the additional pressure on its elite to improve income distribution—to conduct such wide-ranging measures as land redistribution, or to reform tax system by making it more progressive, or to improve the delivery of social programs, or to make schooling more easily accessible. But many of these programs’ effects are long-term and the government that implements them may not be around to reap the benefits. Or the elite may be entrenched and oblivious of country’s interests.

There are serious objections inherent in every use of sanctions in international affairs. We believe however that in this case the strength of the objections is less than in other cases. This for two reasons. First, these are relatively mild “reprimands” for countries since they would still be part of the international community or members of the World Bank, IMF etc. Second, in no country is unequal distribution of income popular among the bulk of the population. This is almost by definition the case since unequal

---

13 One should recall that micro data from household surveys are in principle available and can be independently cross-checked. This cross-check is harder to do with national account statistics like GDP.
distribution is always to the benefit of a small minority. Sanctions would therefore create a commonality of interest between the bulk of the population and international community which is very different from the politically motivated sanctions where the objectives of the “sanctioners” are often impugned. In the latter cases even beleaguered and otherwise unpopular regimes may be able to harness popular support as they project themselves as protectors of the national interest. But arguing in favor of the maintenance of a very unequal distribution of income cannot, however imaginative the regime, be construed to be in some national interest, particularly not in very poor countries. Thus the popular support in the face of this type of international ostracism cannot be easily, or at all, marshaled. The power of sanctions is thereby significantly enhanced.

Finally, there are three positive arguments that we can adduce in favor of this proposal. First, it introduces in the international aid arena a finer, more nuanced, view regarding eligibility for aid. It basically attempts to copy to the international scene the well-accepted rules of distribution valid within the nations. And, as international aid becomes more important, there is no doubt that some rules will have to be evolved. Second, without some clear distributional rules the idea of international aid is bound to be even less popular than it is today. People are willing to pay taxes if they believe that the beneficiaries are poorer than themselves. They are unlikely to accept to be taxed if that assurance is absent. Third, it represents one of the moves in the direction of a world-wide awareness of inequality and the treatment of the world as a single whole.