Intergenerational equity is possible,
provided there is a fundamental change in the principles that govern the world

Egoism and hate alone have a homeland; fraternity does not!
(Alphonse de Lamartine)

In an article published in 2012[1], we had analysed the environmental and economic dimensions of intergenerational equity and had concluded that "*inequalities today are the seeds for intergenerational inequity* [and] *action to reduce them, whether within a given country or across countries, will be favourable to a greater intergenerational equity*", although not sufficient. We also noted that it would be "*easier to resolve this issue step by step, by comparing two successive generations, provided, of course, that problems that may arise in the very long term are not neglected (climate change, biodiversity and others yet to be identified)*".

We will attempt here to go one step further in our thinking and explore the implications of the conclusions reached in 2012 for the nature of economic policies to be adopted, policies that would anticipate the future content that could - should - have the "new humanism" that many have been calling for. These policies, and the conditions required for their implementation, would finally allow humankind, after having lived successively in magical, religious, mechanical, dynamic and then complex if not chaotic universes, to live in a world where the sustainable welfare of every individual would be the concern of all.

Twenty years ago, in a small Asian town, lived a family whose survival the mother, a widow, tried her best to secure. Among the three children, was a little girl just overt 10 years old, curious and intelligent, who wanted to study and graduate from poverty into which her family was sinking despite the solidarity of some relatives and a little assistance provided by the opportunity of a neighbourhood. The little girl died from a benign disease before she reached the age of fourteen, by lack of medical care, and her brother and sister only survived to swell the ranks of underpaid and poor urban labourers.

Thirty years earlier, there lived somewhere in Europe a middle class family that was hit by the death, while still young, of the person who was providing it with a living. Informal solidarity allowed his widow to find two part-time jobs which secured her survival and that of her family and allowed the reimbursement of debts incurred by the household for building a modest house, at a time when loans were not insured. The State helped the family: a pension for the widow and scholarships for the children that were sufficient to effectively pay for expenses, made it that the children could pursue their studies and find a place in society to the wealth of which they could later contribute.

What do these two stories tell us? They show that neither the 'natural' course of things, nor informal solidarity are sufficient to ensure that the human potential existing in a society is realised, and that

[1] **Materne Maetz**, *Equità intergenerazionale e sostenibilità*, Incontri, semestrale Anno IV, n.8 luglio-decembre 2012, Edizioni Polistampa, Firenze. (version in English)

some kind of superior institution - most frequently the State - is required to play the role of protector so that this potential is not lost. Because such a loss would be to the detriment of innumerable individuals, of society as a whole and of its cohesion. These two stories also demonstrate that the combat against poverty - or its prevention - is a way to contribute to the well-being of the generation to come.

In OECD countries, social spending per person has been continuously increasing since the '80s. It has been multiplied by 2.4 in constant terms to reach more than 20% of GDP of OECD member countries (i.e., around 9 trillion dollars in 2011). It is Luxembourg, the country known to be one of the most important financial centres and that offers very favourable fiscal conditions to multinational corporations, that, in 2011, had the highest social spending per inhabitant (USD15,300 at constant 2005 PPP), followed by Denmark (USD10,000). France (USD9,200), the US (USD8,400) and Italy (USD7,900) were far ahead of the laggard member countries that spend the least on social programmes, Chile (USD1,800) and Mexico (1,200). By comparison, while Denmark was allocating around 25% of its GDP to social expenditure, this share was only 11% in Australia, 9% in the US, 5% in China and 4% in India[2]. As of today, only about 25% of the world population has access to some kind of social protection.

Social spendings have been increasingly criticised at a time when they have become more necessary than ever, a time when the crisis and its consequences hit directly the most vulnerable population groups in our societies. Arguments often given to justify cuts in social programmes is that they create dependency and a mentality of assistance among beneficiaries. There are plenty of political leaders who are ready to complain, for example, that unemployment benefits paid discourage the unemployed to look for a job and that they should be reduced, forgetting in the process that behind every unemployed person there is a family and children that represent the future of our societies. These criticisms are made in a context of growing budget deficit and debt that can be explained at least in part by an increasingly failing fiscal system, where profits of companies are taxed less than salaries and where the largest firms use their multinational characteristic to 'optimise' the taxes they pay by transferring artificially their profits to countries where the level of taxation is lower (e.g. Ireland and Luxembourg in the European Union), thus succeeding in benefiting of a level of taxation well below the average taxation rate applied in OECD countries[3], which has been following a decreasing trend in recent decades. In France, for example, it is estimated that large companies pay up to 25% less taxes than small and medium-size enterprises, with considerable variation from sector to sector. To illustrate this, the energy giant Total that made a total turn-over of USD184,7 billion in 2011 and a profit of USD12 billion, only paid EUR1.2 billion tax in France that year, of which only EUR300 million of corporate tax, while it had not paid any corporate tax in 2010! Some of these firms take opportunity to create Foundations that use resources that have avoided taxes in order to substitute for the State by initiating social or development activities which do not have any democratic grounding and are often used to achieve objectives or propagate ideologies valued by those who finance them. According to the *The Index of Global Philanthropy and Remittances 2013*, philanthropic foundations represented approximately 50% of official development assistance, whereas they accounted only for a minimal share in the '90s[4].

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[2] http://www.oecd.org.

[3] The average level of taxation applied to corporations in the OECD decreased from 38% in 1993 to 24,11% in 2014.

[4] Hudson Institute, Center for Global Prosperity, *The Index of Global Philanthropy and Remittances 2013*.

This illustrates in a shocking fashion the consequences of globalisation and of the inability of the national level to impose taxes on multinational corporations. As a consequence, the capacity of governments to fund indispensable actions to combat poverty, hunger and climate change is reduced and the investment in education and training is insufficient, thus contributing to a further increase of inequalities[5]. Moreover, the States have a tendency to implement policies which often do not support the promotion of a sustainable economy. The IFM estimated that in 2012 subsidies paid on energy in the world amounted to USD1,900 billion (roughly the GDP of Italy), most of them being handed out in the most advanced countries - even though India was allocating to this type of subsidy USD50 billion and Morocco 4% of its GDP[6]! Some of these subsidies may of course have benefitted poorer population groups, but, most importantly, they have encouraged fossil fuel consumption, emission of greenhouse gasses and thus contributed to the acceleration of climate change.

Although smaller, the amounts spent every year by governments to subsidise the use of agricultural inputs, mostly high energy content fertilisers, pesticides and fungicides, have nevertheless a non-negligible impact on the environment. These chemicals can be found in food and in the environment and have pernicious effects on the quality of soils and water as well as on human health. In 2011, for example, approximately 14% of the support given to agricultural producers in OECD countries was linked to the use of inputs (more than EUR 25 billion). China itself allocated EUR12 billion to similar measures. Even in Africa, for the few countries for which data is available, it appears that between one-third and one half of the assistance provided to farmers was through agricultural inputs support which benefited mostly to the better-off among them.

Policies and incentives in place therefore tend to act as an obstacle against the evolution of our societies toward more sustainability. At least a fraction of the resources used should be redirected towards social protection and youth capacity development programmes, in order to prepare for the future, and towards the development of new and more environment-friendly technologies. This is all the more important and urgent as attempts to mobilise resources through new financial modalities (e.g., Tobin tax in the EU, the eco-tax in France) have so far only been symbolic.

In the area of food and agriculture, there are measures that could help to end hunger, reduce wastage and stimulate the emergence of a more sustainable agriculture. A few tens of billions of US dollars every year would suffice to give sufficient food to all those who are undernourished in the world. A mechanism could be imagined to help reduce food wastage and at the same time generate resources to fund sustainable development programmes, inspired from the principles underpinning the Clean Development Mechanism for reducing greenhouse gas emissions. A system of taxes and incentives could also be envisioned to support the adoption of sustainable agricultural technologies and penalise the use of those that are unsustainable, while raising funds to develop new environment-friendly technologies.

But to implement all these solutions would imply reconsidering two basic principles that seem sacrosanct today because the pressure groups that defend them appear extremely strong. These two principles are at the core of the way we see and manage our world:

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[5] F. Cingano, *Trends in Income Inequality and its Impact on Economic Growth*, OCDE, 2014.

[6] Compared to only 0,2% each for social protection and food subsidies.

- The old principle described by Adam Smith (1723-1790) almost 250 years ago on the model of gravity that had just been discovered by Isaac Newton (1642-1727) and which underpins our economic system and should be left to rule it freely, namely that *the quest for an immediate profit is the main driver of economic development*.
- The principle of *national sovereignty* whose shortsightedness prevents us from seeing that a real world governance is the only way to address the main problems that we are facing today and that are fundamentally global problems. This principle prevents us from imagining governance rules that would allow us to go beyond the unsurmountable barrier that constrains the embryonic world government established since the end of World War II.

The combination of these two principles, which is at the root of national egoisms, gives priority to a world that operates on the basis of competition and not cooperation. For example, any country that would seek today to tax justly profits made by multinationals would see these corporations react either by finding a way to make new taxes ineffective or by relocating their activities, with all the consequences this relocation would have on the economic and social situation in the country. Similarly, a country making efforts to reduce drastically its greenhouse emissions is would likely, in the short term, loose out competitiveness on its partners. This is enough to block any 'local' initiative to solve these global issues that concern global public goods[7]. As long as these two principles will not have been reconsidered and that humankind will not have in place the instruments that will prevent some of us - individuals, countries or groups of countries - to act as global free riders, it will not be able to recast the unjust system that produces extreme and growing inequalities. Neither will it be able to eliminate the constraints that hamper its equitable and sustainable development.

As of today, the creation of WTO remains probably the only case where countries have agreed to release some part of their sovereignty by accepting that their membership in that organisation became legally binding and that any violation of its principles could be punished by a global jurisdiction - the Dispute Settlement Body. This unique agreement could only be achieved because the most powerful countries exerted extreme economic and political pressure on other members of the organisation and dangled before them economic growth opportunities that were later only translated into reality at very different degrees, and because they made promises of increased development assistance which were not held. This surrender of a part of their sovereignty by countries also occurred because it was in line with the logic of the existing economic system and Smith's principle, and it did not question the country as main center for decision-making.

The challenge remains now to succeed in modifying our governance as it is still mainly anchored politically at the national level while the questions we face are increasingly global and at a time when economic decision-making centres have already become global : it is unthinkable to continue governing the 21st Century on the basis of ideas dating back to the 18th Century! The resolution of the issues we face and the possibility of orienting the world towards more equity both intra- and intergenerational will depend on our capacity to change our paradigm and invent a new global governance system that will be adequate for addressing global problems and acceptable to all. This system will have to rest on unquestionable information on the evolution of the heritage that we are

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[7] Global public goods: goods available to all that, because of their economic characteristics need a collective action mechanism to be produced in sufficient amounts. Example: peace and security, the quality of our environment, food security, financial stability, etc. Based on Kaul, I. et al. *Global Public Goods: International Cooperation in the 21st Century*, UNDP/Oxford University Press 1999 http://web.undp.org/globalpublicgoods/Executive_Summary/executive_summary.html

to manage and that will have to be produced by a monitoring system that will integrate indicators pertaining to all aspects of sustainable development (economic, social, environmental, cultural and spiritual).

To meet this challenge, there will be a need to inform and mobilise the population with the view to invent this new governance and produce the massive tidal wave indispensable to conduct a transformation able to brush away egoistic shortsightedness, whether individual, local, national or regional.

In the meantime, any agreement reached on the taxation of financial flows, on the combat against tax havens, on the respect of social rules protecting labourers or on an environmental regulation protecting natural resources, even if it occurs only among a few countries that have a sizeable economic weight at the international level (e.g., EU, G20), would certainly be a step into the right direction.