

**Ample Room at the Top:
Financing a Planet-Wide Basic Income**

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In my paper for BIEN 9 in Geneva in September 2002, I proposed a planet-wide citizen's income to be financed by income taxes falling exclusively on the top one-quarter of the World's income recipients.¹ In my recent book, World Democratic Federalism: Peace and Justice Indivisible² I argue that a Basic Income of US\$1,000 per year for each of the world's 6 billion people could be financed with supplementary income taxes limited to the top one-tenth of the world's income recipients. In this paper I shall pursue this line of argument and try to demonstrate that income and wealth is so concentrated within countries and world-wide in the hands of individuals and corporations, that one doesn't have to search under rocks to find a suitable tax base for a Basic Income, either on a national or world scale. Indeed, one may not even have to tap the entire top ten percent of the world's richest to provide ample financing. The solution is the tried and true one of progressive income taxation. The challenge is to change the societal discourse to privilege once again the centrality of the public good.

Let me start by situating my argument for a planet-wide citizen's income, which I see as one element in a systemic response to the challenges to human security, geopolitical security and environmental sustainability posed by the race-to-the-bottom nature of runaway top-down globalization. To sum up in a sentence or two that to which I give 200 pages in my book: I believe our current predicament requires a scale shift in

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our thinking: it is urgent that we consider building a system of world federalism in which democracy characterizes governing structures from the local to the global. I believe that a single world currency and a system of world public finance, including expenditures to provide a Basic Income to every child, woman and man on this planet are essential if we take seriously poverty-elimination, preservation of peace and the realization of environmental sustainability. This clearly requires a most ambitious task of discourse change, but I believe it to be essential.

My central objectives in this paper are:

1. to suggest that the combination of increasingly concentrated global income and wealth and the fact our data appear to seriously underestimate the extent of their concentration reinforces the claim that a world-wide Basic Income could, in principle, be financed by a tax on the world's richest individuals and families, and
2. to document the extent to which governments have abandoned prior commitments to progressivity in their revenue raising through taxes.

Estimating Income Distribution

It is now over 50 years since the publication by Oskar Morgenstern of his classic work On the Accuracy of Economic Observations. Of the many types of data that Morgenstern examined for major flaws, income distribution data was conspicuous by its absence. In the 1963 edition he did observe in his discussion of international comparisons of national incomes that these involve “the most uncertain and unreliable statistics with which the public is being confronted.”³ Given the growth of the informal sector in the north and the south, one wonders whether we have come very far on the path of data reliability since then.

Data on income distribution is still highly flawed and for many countries it is available only at infrequent intervals, if at all. We still normally don't have a caveat accompanying each of our data series to caution us about the extent of the likely associated error. Each number is generally presented as if it as trustworthy as the next. Nor do economists pay much attention to the basic scientific concept of significant digits. Given the quality of our estimates, Gini coefficients of inequality for many

countries are unlikely to have more than 2 significant digits at best; more likely, only one. Yet, we commonly confidently speak of reductions or increases in inequality based on small changes in the third digit.

One of the first comprehensive compilations of income distribution data was done at the World Bank by Shail Jain (1975). He made explicit the differences between studies, occasionally for the same country and the same year, in population covered and type of income or expenditure analyzed. The differences in the scope of the data from one set to the other in the 81 studies whose results were reported clearly rendered inter-temporal or inter-country comparisons futile. More recently, WIDER (the World Institute for Development Economics Research) has compiled what must be the most exhaustive database on income distribution. This is scheduled to be updated this fall, but the version online at the time of this writing was is of September 12, 2000. The compilation includes over 5000 Gini coefficients, of which close to 3000 are for the period commencing in 1980. The earliest figures are for the United Kingdom in 1867 (Gini = 0.58), Israel in 1944 (Gini = 0.28 for all taxpayers) and the United States in 1947 (Gini = 0.34).

The User Guide for the WIDER database spells out in considerable detail some of the multiple cautionary notes, suggesting even that “Users need to consult the original sources cited for each data point . . . in order to ensure that these data are suitable for their specific research needs.” In the very next sentence, however, restraint is thrown to the wind with the following invitation in capital letters: “THE DATABASE IS PARTICULARLY SUITABLE FOR TIME SERIES ANALYSIS.”⁴ The Guide divides the listed results into two categories, Reliable and Less Reliable, and for the former makes a distinction between 4 levels of coverage, 1 national and 3 others covering either urban, rural or an occupational subset of the population. (For the record, one-third of the results reported are judged to be NOOK, i.e., “Not OK” or “Less Reliable”.) The Guide also notes that one of the ways in which income distribution data may differ is in the ways in which “income” (or expenditure) may be reported; they identify 17 distinct ways of compiling the data on inequality. These include, but are not limited to distinctions between gross income, taxable income, and monetary income. These gradations are not mentioned in the Human Development Report in relation to its

distribution data, which distinguishes only by whether they are based on income or consumption.

The United Nations Development Programme (UNDP) in its Human Development Report 2004 provides an extensive set of data for 177 countries, but includes income distribution data for only 127 of them. Moreover, the reported national estimates cover the period from 1983 (for Rwanda, 1989 for Sierra Leone and 1990 for Spain) to 2002 (for Albania and Indonesia). The UNDP was able to give figures on income distribution data relating to the period 1998-2002 for only 80 countries and nothing more recent than that. In fairness, I should add that in its technical notes, for those who take the trouble to read them, one does find the following: “Because data come from surveys covering different years and using different methodologies, comparisons between countries must be made with caution.”⁵

The most reliable and consistent data is provided by the Luxembourg Income Study (LIS), which is careful to specify that its data refer to disposable household income, i.e., household monetary income from all sources including government income transfers less taxes. The LIS table of key figures lists income distribution estimates for 29 countries.⁶ As of the July 7, 2004 update of its web-based compilation, data for 2001 was listed for only 1 of those 29 countries and data for 2000 for another 11 countries. It is worth noting that for the 28 countries for which data is given for at least two years for the period starting in 1980, 19 of the countries registered an increase in the final period Gini relative to the initial one in excess of 0.015 points. Of those 19 countries, there are six in which the Gini increased by more than 0.050 points over periods of varying lengths: the Czech Republic, Mexico, Russia, Slovak Republic, Sweden, United Kingdom and the United States.

Efforts to improve the quality of data have understandably focused primarily on the bottom of the income distribution. The concern is with the extent of poverty and whether progress is being made in its reduction. Addition to improving the quality of the data at the upper end or even publicizing the extent to which concentration has increased has not been privileged to the same extent, especially by international organizations. Moreover, and this is the most significant point, there has been a clear methodological convergence on the use of household surveys for purposes of

international comparisons. These are recognized by most authors as being inadequate – indeed notoriously so -- in capturing the concentration of income at the top of distribution and in particular in the top 1%, 0.5% and 0.1%.

Efforts to improve data quality have focused on standardization, hence the reliance on household surveys. This gives the illusion of standardization, despite caveats to the contrary. The easy electronic availability of income distribution data that is presented in comparable format with the apparent imprimatur of a distinguished international source is hard to resist. Will this simply create more of what Terence Moll, following D.C.M. Platt, called “Mickey Mouse Numbers” which mislead as to desirable policy options?⁷ This concern led Anthony Atkinson and Andrea Brandolini to publish a major cautionary survey article in 2001: “Promise and Pitfalls in the use of ‘Secondary’ Data-Sets: Income Inequality in OECD Countries as a Case Study.” Their final point reads: “we are not convinced that at present it is possible to use secondary data-sets safely without knowledge of the underlying sources, and we strongly caution against mechanical use of such data-sets.”⁸

Does it make much of a difference to tackle the measurement of income distribution in a different manner? Very definitely. The LIS lists 7 Gini coefficients for the US for the period between 1974 and 2000 (as well as 5 other inequality measures for each of the same years). The highest Gini listed for the US was 0.372 in 1997. In fact, for those of the industrial OECD countries for which data is provided by the LIS, that is the most unfavorable figure. Edward Wolff, one of the leading authorities on wealth in the United States, lists US post-tax Gini coefficients of 0.41 in 1983, 0.50 for 1989 and 0.46 for 1998.⁹ To further illustrate the point, Wolff gives sets of Gini coefficients of US wealth based on two different sources, one (SIPP, Survey of Income and Program Participation) which uses a representative sample, the other (SCF, Survey of Consumer Finances) which over-samples at the upper end of the distribution. To use just one set of these comparisons: for 1988 the wealth Gini calculated using the SIPP data was 0.69, while for 1989, the calculation using SCF data was 0.84. As Wolff notes:

In general, the greater the coverage of the upper wealth groups in a sample, the higher is the degree of measured wealth concentration. As a result

one must remain rather suspicious of wealth inequality figures based on representative samples.¹⁰

There are at least two corollaries to Wolff's observation: 1) as sample size of the upper wealth groups approaches the entire set as a limit, the higher will be the Gini coefficient for both income and wealth and 2) the true figures for concentration of income and wealth will be even higher given the diverse ways of hiding income and assets.

Milanovic's 'True' Distribution of World Income

World income distribution commonly refers to a ranking of countries by per capita income. From this data ratios of the income of the top 20 percent to the bottom 20% of the world's income distribution are compiled and referred to, with little clear attribution to source or method of determination. For example, the UNDP has provided an account of the evolution of the ratio of the income of the world's richest 20 percent to the world poorest which is estimated to have gone from 3:1 in 1820, to 7:1 in 1870, to 11:1 in 1913, to 30:1 in 1960, to 61:1 in 1991, and to 74:1 by 1997.¹¹

A new perspective has been added to our discussion of world income distribution by the research at the World Bank by Branko Milanovic. He describes his work as the first to estimate world income distribution exclusively through use of household surveys (for 91 countries) and adjusted for differences in purchasing power parity. His results and those of Xavier Sala-i-Martin confirm that world distribution is far more unequal than within country inequalities. Rounding to one significant digit, they both give the World Gini as 0.6 (0.628 and 0.627) for 1988, while for 1993, Sala-i-Martin's results are unchanged at 0.6 (0.615), while Milanovic's results round to 0.7. (0.660).¹² The preceding results are all based on Purchasing Power Parity dollars; without that adjustment Milanovic reported a World Gini of 0.782 for 1988 and 0.805 for 1993 (both of which round to 0.8).

Milanovic's results, which indicate that the top 10% of the world's income recipients received in 1993 50% of the world income and that the top 1% received 9.5% of world income, served as the basis for my trial calculations for funding a Planet-Wide Citizen's Income. Working with a world income of \$30 trillion in 2000, I proposed the

the tax rates which appear in Table 1 below for funding a truly universal Basic Income for all (which individual governments would be free to supplement). The rates were chosen arbitrarily to provide the \$6 trillion dollars necessary to provide all humans with an annual Basic Income of \$1,000 per year, which is equivalent to 1/5 of the average purchasing power parity world per capita income for 2000. It also amounts to the equivalent of \$2.74 per person per day, which would leave no one on the planet with an income less than either \$1 or \$2 per day. Unlike the Millennium Development Goals which promise relief, essentially still through trickle down to only one-half of those living on \$1 per day and that only by the year 2015, a Planet-Wide Citizen's Income would put money in everyone's hands once the commitment is made and mechanisms are in place to implement it.

Table 1: Hypothetical Tax Proceeds for Funding a Planet-Wide Citizen's Income of \$1,000 per capita

	Population billion	Share of World Income 1993 Trillion US\$	Income Trillion US\$	Tax rate %	Tax Proceeds Trillion US \$	Net tax/pci
top 1%	0.06	9.5	2.85	0.45	1.3	0.43
next 4%	0.24	24.2	7.26	0.40	2.9	0.37
next 5%	0.30	17.1	5.13	0.35	1.8	0.29
sum	0.60	50.8	15.24	0.39*	6.0	0.35*

* Average

Source: Myron J. Frankman (2004), p. 155. Shares of World Income are from Milanovic (2002)

If some existing income-support programs were to be replaced by the Citizen's Income, then supplementary tax rates for this purpose need not be as large as listed above. And if the incomes at the top of the distribution are, in fact, considerably higher than Milanovic's figures suggest, then supplementary income tax for those in the 91-95 percentiles ("next 5%") could be taxed at a lower rate. Moreover, not only would the top

earner 1% tax base be larger, but differential rates could be applied targeting the top 0.1%, for example, with even higher supplementary rates. As Atkinson has pointed out for recent data for the UK, the top 0.1 percent of the income recipients receive over one-third of the total income of the top 1 percent.¹³

The Erosion of Fiscal Progressivity

The changes in government public finance that have occurred during the past quarter century are not a necessary consequence of the process of globalization, so much as they are a product of the hegemonic neoliberal discourse which disparages any association of the public good with social solidarity. Indeed, even the existence of a public good is denied. We have moved beyond the equality-generating downward phase of the much-heralded Kuznets inverted U to what now begins to look like the upward phase of a continuous wave motion. In the current phase political forces committed to policies that have as their concomitant increasing income concentration have gained the upper hand in society, a testimony to what Albert Hirschman referred to as the changing (one might say ever-changing) tolerance for income inequality.

When Keynesian economics held sway during the first post-World War II decades, there was commitment to policy frameworks which were broadly supportive of mitigating social exclusion and the narrowing of gaps between the haves and have-nots within major industrial societies. The shift in recent years has been extreme. Blaming the victim is again in fashion and some, in apparent paraphrase of Proudhon, virtually insist that “taxation is theft.” Others, among which most notably is the International Monetary Fund, are happy to defer to some distant future time progressive taxation of income, wealth and/or inheritance in favor of reliance on transaction taxes and are quite self-satisfied in having helped to reverse the historical trend that saw countries shifting from taxation on transactions (indirect taxes) to taxation on income and wealth (direct taxes).¹⁴ Junko Kato, puts a positive spin to recent events, in effect making a virtue of a preservation response. She writes “a revenue shift to regressive taxes makes it politically easier to maintain a large public sector,” and in Europe “a mature welfare state is closely connected to a larger reliance on regressive taxation.”¹⁵ This phase, too, will pass, owing to the contradictions inherent in extreme income inequality.

How large, in fact, is the income and wealth of those at the top of the world's income distribution? The only thing of which we can be sure is that the data at our disposal is at best a substantial underestimate of the income and assets for those in the top one percentile, as well, to a somewhat smaller extent, for those in the next 4 percentiles (96 through 99). Many sources note that the rich are much less likely to voluntarily complete household surveys, nor would one be able to count on the reliability of those that are completed. Some of gross income may be sheltered, legally or illegally, thanks to the able advice of specialists.¹⁶ Taxable income may be reduced by taking advantage of numerous loopholes that have been written into the relevant legislation. Divergences between personal and corporate taxes in the treatment of assets and expenses can lead to tax minimizing behavior that further reduces the reported income of the rich.

Atkinson reporting on a sample of OECD countries notes that the number of tax brackets has been reduced in several and that progressivity of the tax system has declined and most particularly as it affects the upper one percent of the income distribution. This is highlighted most effectively by Kato in a table where she compares the number of brackets and the highest marginal rates in 1986 and 1990 for 19 OECD countries. In 15 of the 19 countries the number of brackets were reduced. The largest number of brackets eliminated were in Spain (from 34 to 16), in the US from 14 to 2, in Japan from 15 to 5 and in Sweden from 10 to 1 (excluding the zero rate as a bracket). Only in Denmark, France, Ireland and Switzerland was there no change in the number of brackets; Germany is an exception in that it has a formula rather than brackets. In every country, except Switzerland the top rate was reduced. The reduction of the maximum marginal rate was by 10 percentage points or more in 12 of the 18 countries. The largest percentage point reductions were in Sweden, 30 points; New Zealand, 24; US, 22; Japan, Norway and the UK, 20; and Belgium, 17.¹⁷ Of the 6 countries listed here as having the largest point reductions in the maximum marginal tax rate, 4 are in the LIS database, Japan and New Zealand are not. In all 4 inequality increased in association with the decline in income tax progressivity, with Sweden, the UK and the US all having changes exceeding 0.05 points. Since 1990, there have been further rate reductions in at least eight of those countries, with Spain having the largest: a drop of 24 points to a 32%

maximum tax rate. In contrast, the marginal rates were increase in Denmark (19 points), New Zealand (6 points) and the US (11 points).¹⁸

Kevin Phillips reminds us, for example, that the United States during the 1950s had six different tax brackets for people in the top 2% of the income distribution.¹⁹ At that time the maximum marginal rate in the US was 91%. A reduction to 70% was reversed during the Vietnam War in the 1960s, the maximum marginal rate reaching 77%. This was subsequently reduced to 50% and then to as low as 28% during the Reagan years.²⁰ Today there are a total of 6 different rates, with the maximum of 38.6% applying to any taxable income above \$307,050 (or one-half that amount for married individuals filing separately). Phillips suggests rate of 40, 44, 48, 52 and 56%, with the initial rate of 40% applying to incomes over \$1 million and with income over \$50 million being subject to the 56% rate.

Personal Wealth and Corporate Profits

I have focused on progressive taxation as a possible source of financing for global public purposes, including a citizen's income for all. I haven't addressed accumulated wealth as another source of revenue. One comparison that has made the rounds in recent years is that between the income of the world's poorest countries and the wealth of the world's super-rich individuals. Matching Forbes Magazine's 2002 list of billionaires with the UNDP's figures for GDP of the world's 64 low-income countries for 2002, we find that the wealth of the richest 191 individuals was just slightly greater than the total income of the low-income countries, which according to the UNDP's figures accounted for 40% of the world's population.²¹ Edward N. Wolff in his work on the US points out that the top 1% of the population has held close to 40% of the nation's private wealth in recent years.²² He recommends a wealth tax for the US patterned on that of Switzerland. A system of world public finance in which the role of havens as a refuge from taxation is brought under control offers the prospect of also tapping some of the world's extreme wealth for a Planet-Wide Citizen's Income

The focus on the personal distribution of world income leaves out an important segment of the world income, most notably corporate profits. You have no doubt seen

interspersed rankings of the revenues of the largest companies and national GDPs. I shall continue with a comparison with the cohort of low-income countries: in the Fortune Magazine 2004 ranking of the world largest corporations, the combined revenues of the top 6 exceed the GDP of the low-income group of 64 countries. More to the point is that the profits of the companies on this list also represent a potential tax base for financing a Planet-Wide Citizen's Income, were we to have a system of world public finance. The combined profits of the Global 500 companies easily exceed the roughly \$1.1 trillion GDP of the cohort of low-income countries.

Once again official figures are likely to understate the total profits, especially of firms who operate globally and can take full advantage of inconsistencies in the tax treatment of diverse jurisdictions as well as resorting to the use of tax havens. Indeed, tax deductible business expenses both serve to decrease recorded profits and enhance the lifestyle of corporate executives without necessarily increasing their taxable incomes. Profit levels are only in part a reflection of the market successes of corporations, they also reflect the revenue-raising idiosyncrasies of multiple jurisdictions, including the complex interrelations between the corporate profit tax and the personal income tax, and decisions by corporate executives and/or boards as to how revenues are to be allocated. Suffice it say, that the profits of global corporations in particular should not be overlooked as one of the potential sources for funding a part of a Planet-Wide Citizen's Income.

Conclusion

Our figures on concentration of income and wealth are both scanty, flawed and often not comparable across time and across countries. Whatever the many shortcomings of the data, our picture of the extent of inequality becomes fuller daily

with the parallel growth of electronic records, ever-expanding computing capability and a scholarly bias in favor of econometric analysis. Yet a cynic might say that much of the extensive effort devoted to perfecting our income distribution data, head counts of the poor and indicators of well-being are diversionary smokescreens that succeed very effectively in providing jobs for the world's privileged and are considerably less successful in benefiting those said to be the object of our statistical measurements.

It is most likely that estimates of the income and wealth of the world's richest individuals and families and profits of the richest corporations err considerably on the low side. In a world which has turned its back on progressive taxation and in which the focus of attention is on the poor, this understatement of concentrated gain is treated by very few as a matter of serious policy concern.

To the question "What can I do?" Susan George offered the following counsel, which still rings true, almost 30 years later: "study the rich and powerful, not the poor and powerless."²³ There is undoubtedly ample room at the top for financing a program that could contribute to global security by instituting a global Basic Income through increases in income taxes on the world's richest and supplementary taxes on corporate profits. These are the days when the slogan "another world is possible" is commonly spoke of. One possible world might include poverty alleviation and "real freedom for all" world-wide through a Basic Income for all of the Earth's inhabitants. This requires a major rethinking of how we see the world. Anything less is likely to maintain us on our collision course with planetary disaster.

¹ Myron J. Frankman, "A Planet-Wide Citizen's Income: Espousal and Estimates," 9th International Congress of BIEN (Basic Income European Network), Geneva, Sept. 2002. See also Frankman, "Funding a Planet-Wide Citizen's Income: Trial Calculations," Paper presented at first meeting of the US Basic Income Guarantee Network, New York City, March 8, 2002. (<http://icesuite.com/myron.frankman/files/fpwci.html>) and Frankman "Planet-Wide Citizen's Income: Antidote to Global Apartheid," Labour,

Capital and Society, 31 (nos. 1 & 2, 1998), 166-78. Special issue on "Workers and Borders in the Context of Regional Blocs."

² Frankman, World Democratic Federalism: Peace and Justice Indivisible (Houndmills, Basingstoke, Hampshire and New York: Palgrave-Macmillan, 2004).

³ Oskar Morgenstern, On the Accuracy of Economic Observations (Princeton: Princeton University Press, 1963), 2nd ed., rev., p. 282.

⁴ World Institute for Development Economics Research, World Income Inequality Database v 1.0, User Guide and Data Sources (12 Sept. 2000), p. 8. Pdf file available at <http://www.wider.unu.edu/wiid/wiid.htm>

⁵ United Nations Development Programme, Human Development Report 2004 (HDR) p. 272.

⁶ <http://www.lisproject.org/keyfigures/ineqtable.htm>

⁷ Terence Moll, "Mickey Mouse Numbers and Inequality Research in Developing Countries," Journal of Development Studies, 28 (July 1992), 689-704.

⁸ Anthony Atkinson and Andrea Brandolini, "Promise and Pitfalls in the use of 'Secondary' Data-Sets: Income Inequality in OECD Countries as a Case Study," Journal of Economic Literature, 39 (Sept 2001), 771-99.

⁹ Edward N. Wolff, Top Heavy: The Increasing of Wealth in America and What Can be Done About It (New York: The New Press, 2002), pp. 39, 62

¹⁰ Wolff, p. 88.

¹¹ UNDP, HDR1999, p. 3.

¹² Branko Milanovic, "True World Income Distribution, 1988 and 1993: First Calculations Based on Household Surveys Alone," Economic Journal, 112 (Jan. 2002), p. 72; Xavier Sala-i-Martin,(2002) "The Disturbing 'Rise' of Global Income Inequality," <http://www.columbia.edu/~xs23/papers/GlobalIncomeInequality.htm>

¹³ Atkinson, "Top Incomes in the United Kingdom over the Twentieth Century" (Dec. 2003), p. 38. <http://www.nuff.ox.ac.uk/users/atkinson/Topincomes20033.pdf>

¹⁴ Liam Ebrill, Michael Keen, Jean-Paul Bodin, and Victoria Summers, The Modern VAT (Washington: International Monetary Fund, 2001).

¹⁵ Junko Kato, Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion (Cambridge: Cambridge University Press, 2003) pp. 51 and 112.

¹⁶ See the reports of the OECD's Financial Action Task Force on Money Laundering for examples. URL: <http://www1.oecd.org/fatf/>

¹⁷ Kato, p. 15

¹⁸ World Bank, WDI Online [viewed August 1, 2004]. One can also find there the income in US\$ beyond which the maximum marginal rates apply, which is around 10 times higher (or more) in the US than in Australia, Ireland and New Zealand.

¹⁹ Kevin Phillips, 'Too Much Wealth, Too Little Democracy', Challenge 45 (Sept-Oct 2002), pp. 17-18..

²⁰ Daniel R. Feenberg and James M. Poterba, "The Income and Tax Share of Very High-Income Households, 1960-1995," American Economic Review Papers and Proceedings, 90 (May, 2000), p. 269.

²¹ "The World's Richest People" Forbes (online), Feb 26, 2004

<http://www.forbes.com/maserati/billionaires2004/bill04land.html> If one were to use Forbes (early) 2004 figures on the richest, the combined wealth of only 151 would have been sufficient to surpass the combined 2002 income of the low-income countries. I note here that while the World Bank and the UNDP data concur on GDP, they differ on the population of the "low-income" countries, with the World Bank's WDI Online reporting 2.27 billion and the UNDP's HDR reporting 2.56 billion..

²² Wolff, pp. 38-40.

²³ Susan George, How the Other Half Dies, (Harmondsworth: Penguin Books, 1976), p. 289.