

# WHY REMITTANCES TO POOR COUNTRIES SHOULD NOT BE TAXED

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Remittances are private financial transfers from migrant workers back to their countries of origin. These are typically intra-household transfers from members of a family who have emigrated to those who have remained behind. The scale of such transfers throughout the world is very large, reaching \$338 billion U.S. in 2008<sup>1</sup>—several times the size of overseas development assistance (ODA) and larger even than foreign direct investment (FDI). The data on migration and remittances is too poor to warrant very firm conclusions about

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1. DILIP RATHA ET AL., WORLD BANK, MIGRATION AND REMITTANCE TRENDS 2009, at 1 (2009).

their effects—actual or potential—on poverty and development in poorer countries. We will however, present reasons that make it plausible to believe that remittances *can* contribute to poverty-reduction and promote development in poorer countries. Our main aim, however, is not to engage in detail with empirical debates about the effects of these transfers, but to establish moral grounds for favorable tax treatment on remittances on the assumption that they do have positive effects on receiving countries.

In Part I, the potential of remittances and implications of the empirical assumption that such transfers do have such beneficial effects are explored. In particular, we spell out the implications of this assumption for the tax treatment of migrants from poorer countries who work in affluent countries. In Part II, we address the reasons for taxation and argue that funds remitted by migrants to their (poorer) country of origin should be given favorable tax treatment by tax authorities in the (affluent) countries in which they work. That is, such migrants should be provided with refundable tax credits or tax exemptions for funds that they remit back to their countries of origin, subject to various controls. Part III presents the moral grounds for exempting remittances. Part IV addresses potential moral objections to our proposal. Part V discusses how the tax benefits should be restricted, and Part VI makes some concluding remarks.

## I. THE POTENTIAL OF REMITTANCES

Each of the rationales for granting favorable tax treatment to migrant workers depends upon the empirical premises that such increased financial flows can be effective for combating poverty in the poor countries that receive the remitted funds, and that providing tax incentives would increase the flow of remittances. Given that migrant workers have strong personal incentives to increase the amount of resources they send back to their country of origin, the second empirical premise seems relatively sound. But is the first empirical premise plausible? Are such financial flows likely to improve the position of poor people in countries of origin?

### A. *Direct Benefits*

Remittances have positive direct and indirect impacts in remittance-receiving countries. Some of these benefits are *direct*. Remittances can increase the income of recipient households, thereby enabling members of these households to meet their basic consumption needs. A World Bank study found that a 10 percent increase in international migration (the percentage of a country's population that lives abroad) is correlated with a 1.9 percent decrease in poverty.<sup>2</sup> A study by Hillel Rapaport and Frédéric Docquier notes not only a correlation but even an allegedly positive effect on countries receiving remittance flows.<sup>3</sup> There is also a great deal of evidence about the effects of remittances on particular countries. A study by Richard Adams found that households in Guatemala that received remittances from migrants experienced decreases in the extent and depth of poverty.<sup>4</sup> Prabal De and Dilip Ratha report that, in Sri Lanka, the weight of children under five in households receiving remittances was greater than in those not receiving such transfers.<sup>5</sup> Remitted funds can also enable the recipient households to make investments in education, health and housing, and to contribute to the creation of small enterprises. Those who send funds are most likely to send them to members of their household that most reliably spend or invest them. Indeed, such funds will often be sent *on the condition* that they will be spent in ways that benefit the household.<sup>6</sup> Others have noted that flows of remittances are affected by changes in economic conditions in the recipient country, such as inflation. Remittances are responsive to local price increases or foreign exchange shifts, often offsetting the

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2. Richard H. Adams Jr. & John Page, *Do International Migration and Remittances Reduce Poverty in Developing Countries?*, 33 *WORLD DEV.* 1645, 1648-51 (2005).

3. Hillel Rapoport & Frederic Docquier, *The Economics of Migrants' Remittances*, in *HANDBOOK ON THE ECONOMICS OF GIVING, RECIPROCITY AND ALTRUISM* (Serge-Christophe Kolm & Jean Mercier Ythier eds., 2006).

4. Richard H. Adams, Jr., *Remittances and poverty in Guatemala* 12-13 (World Bank Policy Research Working Paper No. 3418, 2004).

5. WORLD BANK, *GLOBAL ECONOMIC PROSPECTS 2006: ECONOMIC IMPLICATIONS OF REMITTANCES AND MIGRATION* 126-27 (2006).

6. *Id.*

budgetary losses that households would otherwise have to face.<sup>7</sup>

### B. *Indirect Benefits*

Remittances may also have significant positive *indirect* effects. Households that do not benefit directly from remittances may nevertheless benefit from the influx of funds that can lead to increased demand for labor-intensive services, among other positive ‘knock-on’ effects for the recipient economy. Devesh Kapur and John McHale have recently suggested that the fact that remittances go directly to recipient households and do not need to pass through the state also carries significant benefits.<sup>8</sup>

A great deal of aid—both ‘official’ aid provided by national governments (intergovernmental aid) and by international financial institutions such as the IMF, the World Bank, and regional development banks, and ‘unofficial’ aid provided by private individuals and nongovernmental organizations (NGOs)—passes through the state or can only reach intended beneficiaries through negotiations with the state. Most aid of this kind strengthens the state of the receiving country relative to its citizenry.<sup>9</sup> This often leads to wasteful and socially harmful competition among local groups that seek access to these revenue streams or that want to capture state power. Researchers have also indicated that because remittances provide an independent source of resources from the state, they can loosen patronage systems and increase the feasibility of political change and institutional reform. For example, Pfütze found that opposition parties in Mexico were much more likely to win elections in municipalities that received relatively high levels of remittances from migrant workers.<sup>10</sup> This can

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7. MANUEL OROZCO, INST. FOR THE STUDY OF INT’L MIGRATION AND INTER-AMERICAN DIALOGUE, DIASPORAS, DEVELOPMENT AND TRANSNATIONAL INTEGRATION: GHANAIANS IN THE U.S., U.K. AND GERMANY 18 (2005) (noting results of a study of remittances to Ghana).

8. Devesh Kapur & John McHale, *The Economic Effects of Immigration on Sending Countries*, in THE OXFORD HANDBOOK OF INTERNATIONAL MIGRATION (Marc R. Rosenblum & Daniel J. Tichenor eds., forthcoming 2010).

9. *Id.*

10. Tobias Pfüte, Do Remittances Promote Democratization? How International Migration Helps to Overcome Political Clientelism 2 (2009) (unpublished manuscript, on file with the Journal of Development Economics),

arguably be attributed to that population's decreased dependency on the state for aid and social programs.

Remittances can also have the effect of strengthening the local currency and incentivizing people in developing countries to invest in education. In countries such as El Salvador and Nepal, remittances appear also to have sustained the value of the local currency, facilitating payment of foreign debt and imports.<sup>11</sup> What is more, the mere prospect of immigration and the income gains that would follow through remittances provide incentives to make good investment decisions within poorer households. The prospect that a nurse educated in a poorer country could earn more in a foreign market may provide greater incentive to invest in nursing education and training.<sup>12</sup>

### C. *Advantages Over Other Kinds of Assistance*

More generally, remittances appear to have two important advantages over public and private foreign assistance: the sender's knowledge of the needs of the recipients, and the sender's incentives to ensure that resources are spent wisely. William Easterly, for example, has emphasized how the lack of influence of the intended beneficiaries on decisions about how assistance ought to be spent creates perverse incentives for aid organizations.<sup>13</sup> Without accountability to recipients for project outcomes, aid organizations lack incentives to make sure that the assistance that they are delivering is truly effective. The intended beneficiaries of assistance generally lack the ability to sanction donors for failing ensure that their resources support only effective poverty-relief projects. Aid organizations are accountable not to the populations they serve, but to affluent donors, who generally lack the kind of knowledge necessary to effectively oversee the organization's activities.

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available at [http://www.cgdev.org/doc/events/2.23.09/Pfutzte\\_Remittances\\_Democratization.pdf](http://www.cgdev.org/doc/events/2.23.09/Pfutzte_Remittances_Democratization.pdf).

11. DILIP RATHA "Dollars Without Borders: Can the Global Flow of Remittances Survive the Crisis?" *Foreign Affairs*, October 16, 2009, available at <http://www.foreignaffairs.com/articles/65448/dilip-ratha/dollars-without-borders>

12. Kapur and McHale refer to this as the "prospect channel." Kapur & McHale, *supra* note 8.

13. WILLIAM EASTERLY, *WHITE MAN'S BURDEN* 11-12 (2006).

With respect to official aid provided by one government to another, researchers have shown how accountability to affluent donors can create incentives to invest in projects that cannot easily be adapted to the needs of the recipient populations.<sup>14</sup> The history of such intergovernmental aid also suggests that accountability to taxpayers and to domestic constituents in affluent societies may create incentives to allocate such resources in ways that benefit interests of the affluent society but not necessarily the intended beneficiaries of the aid.<sup>15</sup>

Many researchers have also pointed out that aid organizations, whether public or private, have strong incentives to avoid independent evaluation.<sup>16</sup> For one thing, independent evaluation is costly and difficult, and consumes resources that these organizations would like to use to reach the poor. Undertaking such evaluations also creates the risk that the organization will receive negative assessments, which may threaten future funding from official and unofficial donors.<sup>17</sup> Maintaining access to funding sources is extremely important, and it is understandable why organizations that believe that they are addressing the plight of the world's poor would want to avoid criticism that might deter donors.<sup>18</sup> By resisting independent evaluation, however, providers of aid forgo important sources of information concerning the effectiveness of their projects, and thus fail to learn how better to orient their efforts in the future.<sup>19</sup>

Individuals remitting funds, by contrast, have extremely powerful personal incentives to ensure that the funds reach and benefit those they care about, generally members of their families.<sup>20</sup> And unlike aid organizations, those who remit

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14. See ROGER RIDDELL, DOES FOREIGN AID REALLY WORK 358-380 (2007).

15. EASTERLY, *supra* note 13, at 145-184; RIDDELL, *supra* note 14, at 358-380, 385. R

16. Leif Wenar, *Accountability in International Development Aid*, 20 ETHICS & INT'L AFFAIRS 19 (2006).

17. *Id.*; Michael Edwards & David Hulme, *NGO Performance and Accountability: Introduction and Overview*, in THE EARTHSCAN READER ON NGO MANAGEMENT (Michael Edwards & Alan Fowler eds., 2002).

18. K. Jayasinghe & D. Wickramasinghe, *Can NGOs Deliver Accountability? Predictions, Realities and Difficulties: The Case of Sri Lanka*, in NGOs: ROLES AND ACCOUNTABILITY 296 (Haresh Bhargava & Deepak Kumar eds., 2006).

19. Wenar, *supra* note 16, at 20. R

20. William Easterly, *What Difference Does Private vs. Public Foreign Aid Make? Thinking About Knowledge and Incentives*, Address at the 15th An-

funds typically possess in-depth knowledge of the recipients of their support. They will have information, for example, about which household members are likely to be most reliable in ensuring that the funds that they send are spent effectively. This may lead them to put conditions on the continuation of such funds to ensure that they are spent well. Having said that, we should also note that familial obligations, and the fact that remitters may feel responsible for family members receiving funds even if the money is not spent efficiently, may lead them to send money anyway.

Like any other financial flow, of course, remittances can also have negative effects on the receiving country. In some cases they appear to have helped to fuel conflict and civil war.<sup>21</sup> Furthermore, over-reliance on remittances may create macroeconomic problems in the receiving country.<sup>22</sup> Further, if host countries stop taxing remittances, they will make migration more attractive (because of increased earning potential). The possibility of sending back remittances may encourage “earner drain”: the healthiest, highest-earning-potential adults in a family go abroad. In a world without remittances, more of a poor country’s best workers would stay home, though what overall effect this will have will depend a great deal on the opportunities available to them. Remittances, then, are not a panacea, and it is clear that their effects will depend in some measure on other policies that are adopted in both the sending and receiving countries. However, the evidence canvassed above strongly suggests that these financial flows can indeed promote development and poverty relief.

## II. RIGHTS TO TAX

It is not uncommon to assume that what a person pays in tax is not his or her money. Rather, these tax revenues belong, properly, to the community or society that extracts the

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nual Herbert and Justice Rose Luttan Rubin International Law Symposium: The Privatization of Development (Dec. 4, 2009).

21. See Paul Collier & Anke Hoeffler, *Greed and Grievance in Civil War* 6, 8 (World Bank Pol’y Res. Working Paper No. 160, 2002) (correlating rebel groups’ funding, potentially obtained through remittances from diaspora in developed nations, with incidences of civil war around the world).

22. See WORLD BANK, *supra* note 5, at 125 (explaining the distortive effect that local spending of remittance income has on the inflation rates and monetary policies of recipient countries).

tax.<sup>23</sup> That is why the community is entitled to take this money from the taxpayer in the first place. If the community lacked such a claim, and if the money extracted belonged instead to the person, then coercively imposed taxation could plausibly be viewed as violating that persons' rights.

There are a number of reasons why taxes taken from individuals might be thought to belong to the society that extracts them. One reason is that such funds should be properly viewed as so-called *benefit* taxes. Benefit taxes are in effect user charges, which are paid to cover the costs of the use of public and private goods, services, and enabling social conditions (for example, security, the legal system, social cohesion, public health) that are secured by the government or taxing authority.<sup>24</sup> Some of the extracted resources may be considered *Pigouvian* taxes (named after the economist Arthur Pigou), which pay for harms that persons cause to the environment or to other people through their activities. Alternatively, such extracted resources may be considered justified because they are necessary to achieve objectives that are valued by the community or which are viewed as requirements of justice. Such so-called redistributive taxes are devoted to achieving poverty alleviation, to providing valuable educational opportunities, and to mitigating of inequality to an adequate extent.<sup>25</sup>

#### A. *What Is taxable?*

It is of course controversial just *how much* tax can be extracted permissibly from individuals without their unforced consent, and on what terms. Some pacifists, for example, object to paying some portion of their taxes because these resources are being used to sustain aggressive action, or to facilitate unduly coercive diplomacy. Some libertarians reject what we have called redistributive taxes altogether, along with some

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23. See LIAM MURPHY & THOMAS NAGEL, *THE MYTH OF OWNERSHIP: TAXES AND JUSTICE* 8 (2002) ("Taxes must be evaluated as part of the overall system of property rights that they help to create.")

24. see Alexander W. Cappelen, *Justifying the Right to Tax*, 15 *ETHICS & INT'L AFFAIRS* 97, 97 (2000) (contrasting benefit taxation against redistributive and 'entitlement' theories of taxation).

25. Christian Barry, *Redistribution*, in *STANFORD ENCYCLOPEDIA OF PHILOSOPHY* (Edward N. Zalta ed., 2004), available at <http://www.science.uva.nl/~seop/archives/fall2004/entries/redistribution/> (exploring the moral significance of redistributive mechanisms).



kinds of so-called benefit taxes. Robert Nozick, for example, has argued that redistribution in the form of compulsory taxation is “morally on par with forced labor.”<sup>26</sup> And he has famously criticized egalitarian principles of distributive justice, such as Rawls’s difference principle (which categorizes as unjust any national economic order generating inequalities that are not to the greatest benefit of the lowest socio-economic position) on the grounds that they would require extensive redistributive transfers. In this vein, critics of so-called redistributive policies often claim that while individuals may have positive ethical duties to aid poor or unwell persons, it is morally impermissible to compel them to do so through state-administered tax and transfer or other means, unless universal consent for these policies can be secured.<sup>27</sup> We are neither libertarians nor pacifists, but we also think that there are conditions where states may lack a claim to extract taxes from individuals. Here we start to make a case that funds which immigrants from poor countries who work in affluent countries (heretofore ‘host country’) would remit back to their countries of origin (heretofore ‘home country’) fall into this category. We argue that immigrants from poor countries, when calculating their taxable income, should be allowed either to exclude the amount that they send as remittances to their relatives, or should be granted a tax credit, depending on which measure would be more effective at increasing funds with poverty-alleviating effects.<sup>28</sup>

### B. *Taxing Remittances*

The claim that host-country governments lack a claim to extract some taxes from immigrant workers simply because they would choose to spend that income in some particular way—remitting it back to households in their home country—may seem very odd. After all, the incomes of these migrants could be viewed as fair game for extraction of taxes for any of

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26. ROBERT NOZICK, *ANARCHY, STATE, AND UTOPIA* 169 (1974).

27. *Id.* at 149-232 (critiquing various theories of distributive justice, including Rawls’).

28. Lily Batchelder has pointed out to the authors that in the United States, at least, refundable tax credits would very likely be the most effective way of realizing our proposal, since roughly two-thirds of tax filers do not itemize (and are thus unable to deduct charitable or other eligible contributions) and 37 percent are in the zero tax bracket.

the three tax rationales—paying for public goods, internalizing harms caused, achieving valued social objectives—mentioned above. The reason that they are not fair game, we shall argue, is that affluent countries have lost the right to tax these funds by failing to support or by actively impeding institutions and policies that would significantly improve the conditions of the global poor at relatively moderate cost to themselves. Because affluent countries have failed to take steps to provide what they owe to poorer people in developing countries, they are obliged at least to permit others that would assist these needy people to do so. Indeed, by allowing immigrants to send some portion of their pre-tax incomes to developing countries, affluent societies would thereby *reduce* the negative consequences of their failure to act on their duties.

### III. RESPONSIBILITIES TO ADDRESS POVERTY

Our world is characterized by severe poverty, which we shall define as shortfalls that persons suffer in their health, civic status, or standard of living relative to the vital needs and requirements of human beings. This fact is generally held to be not merely unfortunate or regrettable, but morally unacceptable.

Three types of moral reasons are commonly invoked in support of the view that we—affluent individuals in the developed world—are required to address poverty in developing countries. The first, assistance-based moral reasons—invoked famously by Peter Singer<sup>29</sup>—are based on the idea that because poor people are in severe need and we are in a position to alleviate such need at some cost, we are required to do so. The second, contribution-based moral reasons—explored in Thomas Pogge's recent work<sup>30</sup>—are based on the idea that we are required to alleviate severe harm suffered by the poor in developing countries because we have contributed or are contributing to it. The third—beneficiary-based reasons—are

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29. Peter Singer, *Famine, Affluence, and Morality*, 1 PHIL. & PUB. AFF. 229 (1972).

30. See generally Thomas W. Pogge, *Severe Poverty as a Violation of Negative Duties*, 19 ETHICS & INT'L AFF. 55 (2005) (arguing that by imposing unfavorable global institutional arrangements which worsen the lot of the global poor, relative to feasible alternatives, we have a stringent duty to help alleviate their poverty).

based on the idea that we are required to alleviate severe harm to the poor in developing countries because we have benefited from injustices that have contributed to making them worse-off.<sup>31</sup>

#### A. Assistance Failures

In ‘Famine, Affluence, and Morality,’ Peter Singer famously argued that affluent people have responsibilities to assist the global poor by alluding to an analogy of a person passing a shallow pond where another individual is about to drown.<sup>32</sup> Just as the former bears responsibility for saving the latter, affluent people have a responsibility to assist the poor. Singer holds that a plausible principle that would explain our reaction to the pond case, and which would also lead us to recognize our responsibility in the global poverty case, states that “if it is in your power to prevent something bad from happening, without sacrificing anything nearly as important, it is wrong not to do so.”<sup>33</sup> Singer does not specify what it means to claim that something is *nearly* as important as something else—he leaves it up to his readers to decide on the basis of their intuitions.<sup>34</sup>

However, one plausible understanding of the notion of relative importance is the following: we judge the importance of A’s bearing cost X relative to B’s bearing cost Y by imagining how some third party C, who can choose to prevent either A from bearing X or B from bearing Y, but not both, ought to act, all other things being equal. The Singer Assistance Principle (heretofore, the SAP) is therefore much more demanding than it may at first appear.<sup>35</sup> If C is faced with the choice of saving A’s life or B’s hand, then all other things being equal he

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31. See generally Daniel Butt, *On Benefiting from Injustice*, 37 CAN. J. PHIL. 129 (2007).

32. Singer, *supra* note 29, at 231.

33. *Id.*; see also PETER SINGER, *THE LIFE YOU CAN SAVE* 5 (2009) (arguing that the money spent on luxuries can and should be donated to aid agencies saving children’s lives).

34. SINGER, *supra* note 33, at 11-12 (listing examples of ways to easily reduce waste, and concluding that, “[W]hile thousands of children die each day, we spend money on things we take for granted and would hardly notice if they were not there.”).

35. Christian Barry & Gerhard Øverland, *Responding to Global Poverty*, 6 J. BIOETHICAL INQUIRY 239, 240 (2009).

ought to save A's life. This alone does not show that the SAP would demand that B sacrifice his hand to save A's life. It might be argued that B's hand *is nearly* as important as A's life is. This claim is hard to sustain. All things being equal, if C is faced with the choice of saving A's life or one hand each of B and several other people, it seems that he ought clearly to save A's life, indicating that a hand is not nearly as important as a life. The SAP seems extremely, and indeed implausibly demanding. Another principle that would explain this judgment would be what might be called the Moderate Assistance Principle (hereafter, the MAP). The MAP states that: If we can prevent something very bad from happening to other people at relatively moderate cost to ourselves, we ought generally to do so. However, individuals do not in general have duties to take on large costs, relative to what they have, to prevent very bad things from happening to other people.<sup>36</sup>

Unlike Singer's quite demanding principle of assistance, many people do seem to subscribe (or at least pay lip service) to the MAP, or a roughly comparable principle of assistance. We will not argue here against those who reject any such assistance principle. Instead, we assume that it is justified and explore one of its apparent implications for the tax treatment of migrant workers.

Affluent nations do not fulfil their duties as stated by the MAP. Provided that there are effective measures that affluent nations could take to alleviate poverty, more could be demanded without exceeding a moderate demand. First consider the scale of the problem of global poverty: among roughly 6.4 billion human beings alive in 2004, about 1.09 billion were undernourished, 1.09 billion lacked access to safe drinking water, 1.58 billion had no electricity, and 2.62 billion lacked adequate sanitation.<sup>37</sup>

Next consider the resources available to affluent countries: At current exchange rates, the poorest half of the world's population, some 3.4 billion people, have less than 2 percent

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36. *Id.* at 241.

37. UNITED NATIONS DEV. PROGRAMME, HUMAN DEVELOPMENT REPORT 2007/2008: FIGHTING CLIMATE CHANGE: HUMAN SOLIDARITY IN A DIVIDED WORLD 254, 305 (2007), *available at* [http://hdr.undp.org/en/media/HDR\\_20072008\\_EN\\_Complete.pdf](http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf) (using statistics from 2002 to 2005).

of world income.<sup>38</sup> The poorest 40 percent of the world's population has less than a 5 percent share of world income.<sup>39</sup> ODA targeted towards providing basic social services from all affluent countries amounted to just \$8 billion in 2004.<sup>40</sup> That is, the total amount of ODA disbursed towards meeting basic needs by *all* affluent countries was only 3.3 percent of what the United States alone spent on its military in that same year. Only five countries exceeded the very miserly United Nations target of 0.7% of Gross National Income (GNI)—agreed to in 1970 at the UN General Assembly. Given these facts, it seems plausible to draw certain conclusions. It appears that affluent countries can indeed prevent something very bad from happening to other people at relatively moderate cost to themselves, and they are failing to do so.

If affluent people and their governments fail to meet their moderate assistance-based responsibilities, they would do wrong by taxing those who will send money directly to some of these poor people. Since affluent people and their governments fail to provide the assistance to poor people in the developing world that is demanded by a moderate, and intuitively plausible, principle of assistance, it would be wrong for them to prevent others from giving to these poor people what they themselves ought to have given. To see why this argument is plausible, consider again Singer's analogy of the pond. If some agent has a duty to wade into the pond to save a child, even though this will involve muddying his trousers, then if he fails to do so, he ordinarily has no right to prevent some other agent from entering the pond to make the rescue.

Clearly, there are limits to the exemption of remitted funds from taxation. When the amount sent abroad, together

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38. Anup Shah, US and Foreign Aid Assistance, *Global Issues*, Apr. 13, 2009, <http://www.globalissues.org/article/35/us-and-foreign-aid-assistance#ForeignAidNumbersinChartsandGraphs>; *see also* Anup Shah, Poverty Facts and Stats, *Global Issues*, Mar. 22, 2009, <http://www.globalissues.org/article/26/poverty-facts-and-stats>.

39. *See* Shah, Poverty Facts and Stats, *supra* note 38 (stating that 40% of the world's population lives on less than 5 percent of global income). *See generally* BRANKO MILANOVIC, *WORLDS APART: MEASURING INTERNATIONAL AND GLOBAL INEQUALITY* (2005).

40. ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD), *ANALYSIS OF AID FOR BASIC SOCIAL SERVICES 1995-2004*. <http://www.oecd.org/dataoecd/21/1/40162681.pdf>.

with all other foreign aid, reaches or surpasses what the society would have an assistance-based duty to provide, there would be no further argument for tax exemption or for refundable tax credits. But it is not very likely that that limit would be reached very soon.

### B. *Contribution*

It may be argued that affluent countries contribute unduly to poverty in developing countries through their policies, and that this increases what they are morally required to do to address poverty in these countries. Many assert that affluent countries have contributed in the past to poverty in developing countries through wars of aggression and conquest, colonialism and its legacies, the imposition of puppet leaders, support for brutal dictators and venal elites, coercive diplomacy, unjust trade policy, ill-conceived aid policies, skills-based migration schemes that poach professionals with much-needed abilities from poorer countries, and so on. More recently, Thomas Pogge has argued that there is an additional and arguably even more consequential way in which the affluent continue to contribute to poverty in the developing world. He argues that when people cooperate in instituting and upholding institutional arrangements that foreseeably result in more severe or more widespread poverty or human rights deficits than would foreseeably result under feasible alternative arrangements, they are contributors to these harms. Because of this, he argues, they have weighty negative duties to address this poverty.<sup>41</sup> We call this type of contributing to poverty 'enabling' poverty.

There are many policies that may arguably be viewed as contributing to poverty in the developing world. We mention here just one that relates directly to migrant workers. The immigration policies of affluent countries experiencing skill shortages have often led them to the practice of 'poaching' skilled individuals from poor countries. In some cases, this has led to severe shortages of doctors, nurses, and other needed professionals. In an article detailing some of the costs of the recruitment of health professionals from developing countries, Pang, Lansang, and Haines report that 18,000

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41. THOMAS W. POGGE, *WORLD POVERTY AND HUMAN RIGHTS: COSMOPOLITAN RESPONSIBILITIES AND REFORMS* (2002).

Zimbabwean nurses work abroad, that the financial cost to South Africa of having 600 of its medical graduates working in New Zealand was estimated at \$37 million, and that UNCTAD has estimated that each migrating African professional represents, on average, a loss of \$184,000 to Africa.<sup>42</sup> Examining some of the poorest and understaffed health systems, Clemens and Pettersson report that two of three Liberian physicians and two of three Gambian nurses work in a developed country.<sup>43</sup> Yet while affluent countries engage in migration-friendly policies toward skilled workers, they place heavy restrictions on unskilled workers. Liberalizing immigration for unskilled workers could bring very substantial benefits for both migrants and the societies they leave behind.<sup>44</sup>

Whether and to which extent affluent countries have contributed or are contributing to poverty through these channels and others is of course an issue about which there is likely to be a great deal of empirical disagreement. Arguably however, even the suspicion that one may have contributed to a severe deprivation can give one an additional reason to remedy it, even if this reason is not as stringent or demanding as the reasons one would have if one were certain about one's contribution and its magnitude. As an example, consider someone who has reason to suspect that the chemical she has released may have contributed to children's health problems, but she does not know this for sure. In such circumstances, she might reasonably take herself to have an ethical responsibility (although not a legal or enforceable one) to contribute toward meeting the costs of the treatment of their problems—or at least more reason to do so than she would have in the absence of any reasonable suspicion that she may have contributed to their condition. This may be true even where it is impossible to determine whether standards sufficient for establishing

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42. Tikki Pang et al., *Brain Drain and Health Professionals*, 324 *BRIT. MED. J.* 499, 500 (2002).

43. Michael. A. Clemens & Gunilla Pettersson, *A New Database of Health Professional Emigration from Africa* 13 (Center for Global Development, Working Paper No. 95, 2007).

44. LANT PRITCHETT, *LET THEIR PEOPLE COME: BREAKING THE GRIDLOCK ON GLOBAL LABOR MOBILITY* (2006).

criminal or tort liability are met, or even when we know that they have not been met.<sup>45</sup>

If we have reason to believe that we have contributed to or are contributing to deprivations in poorer countries, and if remitted funds are a relatively effective manner of addressing these deprivations, then we ought not to reduce the volume of these funds by taxing them. It seems particularly incumbent on us to do so if we have reason to believe that our immigration policies are themselves a vehicle by which we contribute to these deprivations. We would in effect be preventing the mitigation of harms to which we already are contributing—a very serious moral wrong.

Let us also point to one way that people in affluent countries might contribute to harm by *enabling* it to happen, which explicitly depends on the Moderate Assistance Principle. The idea is that, by reducing the volume of remittances by taxing the incomes of migrant workers, citizens of the countries in which migrants work can plausibly be viewed as complicit in enabling harm to the global poor. Consider the following simple case:

If some goods are going in the direction of people that are in a deprived state and you interpose an obstacle so that the goods do not reach those in need of these goods, you enable their continued deprivation.

By parity of reasoning, by withholding the tax-part of the money that immigrants from poor countries send to their relatives, people in affluent countries become complicit in enabling poverty. This is so because they create an obstacle that prevents a good that otherwise would have improved the conditions of the poor from reaching them.

Of course, the claim that the affluent are enabling poverty in this way follows only if certain claims are true. It must be true that the money the affluent prevent from reaching the poor is not *their* money. They cannot have a valid claim to impose a tax on remittances. We argue that they lack such a valid claim on the ground that they currently fail to prevent something bad from happening to other people at relatively

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45. See Christian Barry, *Applying the Contribution Principle*, 36 METAPHILOSOPHY 210 (2005) (arguing that standards appropriate for applying criminal and civil legal norms can be extremely implausible for applying norms for determining ethical responsibilities).



moderate cost to themselves and to others. That is, people in affluent countries typically fail in their assistance-based responsibilities. When some people use part of their income to assist the poor, the government of the affluent country therefore has no right to impose obstacles that prevent funds from reaching the poor by taxing the money sent.<sup>46</sup>

As noted above, our conclusion follows only if favorable tax treatment would in fact result in migrants sending more money home as remittances, and only if this would have beneficial effects for the people in the home country. These are empirical premises concerning how the immigrants would react to tax exemption or refundable tax credits, and the likely effects of remittances, but that they will react in this way seems reasonable, as does the assumption that remittances will indeed benefit the poor.

One might perhaps wonder whether it is worse to prevent a preventer of poverty than to fail to prevent poverty in the first place. That is, one might ask if the second argument really adds anything to the first argument. Mathew Hanser has argued that enabling harm is morally on a par with allowing harm.<sup>47</sup> He would not therefore think the second argument adds much to the first. We think that there is a difference, because when you intervene to prevent aid from reaching a victim, there is an action of yours that is relevant for the existence of the need, namely your prevention of the aid. However, when a person simply fails to provide assistance there is no action of his that is relevant for the need, only his failure to assist. If correct, this would imply that it is worse to tax remittances, which would otherwise have reached the poor, than simply not to send money to the poor.<sup>48</sup>

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46. If they had a valid claim on the money, then the claim that they enabled harm by withholding it would not be plausible.

47. Matthew Hanser, *Killing, Letting Die and Preventing People from Being Saved*, 11 *UTILITAS* 277 (1999).

48. Note that this argument would also work if there were other reasons for not taxing remittances. Libertarians, for instance, provide such reasons. Any argument that would substantiate the claim that affluent countries have no right to tax, or no right to tax so heavily, would imply that by taxing remittances to poor people, we would enable poverty. We will not explore such possibilities here.

### C. *Benefiting from Injustice*

Another reason that an agent may have to address some deprivation is that they have benefited or are benefiting from it. Suppose that the Government A has bought resources that a rapacious Government B has stolen from its people, and has subsequently sold at a profit to some third party. In lieu of being able to return the resources to the people that rightfully owned them, or extract full compensation from Government B, Government A ought arguably to bear at least some of the cost of compensating those whose resources have been stolen. At the very least an innocent bystander Government C who has had nothing to do with the transaction at all, seems to have less reason to bear the cost of compensating than does Government A.

Affluent countries do indeed seem to *benefit from* injustices of various kinds to poor people. Many in the host country benefit from the presence of skilled and unskilled migrants who supply scarce abilities and are willing to do 'dirty work' that others are reluctant to do.<sup>49</sup> The reason these migrants are willing to accept such conditions is that they are usually immeasurably better than the conditions they would enjoy in their home countries. The dearth of opportunities in their home countries is often a result of unjust policies adopted by their governments, or institutional arrangements that systematically disadvantage them. The host country may therefore benefit a great deal from injustices, even if it does not contribute to them. And indeed the host country's ability to reap benefits from the migrant workforce seems to *depend on* these injustices in their home country.

Sometimes avoiding benefiting from injustice is very difficult, or practically impossible, due to the high costs involved. It might be difficult for an individual to opt out from society to make sure that she is no longer benefiting from current injus-

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49. Peter Sutherland, the UN Secretary-General's Special Representative on International Migration and Development, states, "There is, in short, a need for immigrants who will do the jobs that Europeans either cannot or will not do. But at the moment, many European countries have yet to fully acknowledge that their future growth will depend, in part, on the labour of immigrants." Thalif Deen, *Development: Pros and Cons of International Migration*, Inter Press Service, Sept. 15, 2006, <http://ipsnews.net/news.asp?idnews=34748>.

tices. Compensation to those who suffered the injustice may then seem appropriate. But even when it *is* possible to opt out, initially benefiting from the wrong and then compensating afterwards may be the morally preferable solution. The issue of what we could call a fair distribution of such ill-gotten gains is relevant for each individual agent. An agent who can engage in an activity—trade, say—that would lead her to benefit from injustice may have two morally plausible options. Either she can refrain from trade so as not to benefit, or she can benefit but then redistribute some portion of these benefits to those who have suffered the injustice. Of course, the best thing to do would be to prevent the wrong/injustice. But assume the agent cannot do that. Given that wrong will come about, those suffering it might have reason to support her engagement in the behaviour, provided that she later redistribute some of the benefits back to the injured individuals. This suggests that one plausible response to the recognition that one is benefiting from injustices to migrant workers is to continue to reap the benefits but offer compensation, as the tax expenditure scheme envisioned here would do. Insofar as remitted funds help address poverty, then host states ought not to interfere with them. These states would otherwise be benefiting from injustice without providing compensation to the victims of this injustice.

#### IV. OBJECTIONS

We now turn to consider some objections that could be raised to our argument.

(1) It might be argued that governments are entitled to tax people who use services (e.g. education, health care, transportation, and so forth). Should not our argument then be valid only with respect to whatever net benefit the host country government gets from the immigrant's presence?

We agree that governments are ordinarily entitled to tax people for the use of services. This is not the case, however, when the money they thereby extract would otherwise help to fulfil the government's duties to provide assistance to remedy injustice, to refrain from contributing to injustice, or to refrain from benefitting from it without compensation. If a society fails in any of these three duties, it has a moral debt to other people that it has not discharged, and thus also a duty to re-

frain from creating obstacles to other people's efforts to mitigate the suffering of the people to whom this debt is owed.

(2) If a host country government enables harm by imposing taxes on immigrants from poor countries, then does a grocery store owner also do wrong by charging an immigrant shopper the same amount that she would charge others for her purchases?<sup>50</sup>

We think the argument would apply to the grocery store owner as well—all else being equal. There are, however, some important differences between governments and individual persons like the grocery owner. First, it might be *very* costly for a local grocery store owner to hand out free merchandise to immigrants, but it is not nearly so costly for affluent countries to refrain from the collection of some taxes on immigrants, or to provide them with tax credits for remitted funds. The grocery store owner would accordingly not be required to do so according to the MAP. For the cases to be equivalent, it would also need to be the case that refraining from charging the immigrant for the groceries would lead to more money being sent to people in the immigrant's country of origin, and this is far from obvious. We have no information about whether the immigrant would send the money she saves on groceries to her relatives.

(3) Could one perhaps say that the government is *already* doing what it should by exempting from taxes donations to NGOs devoted to the poor?<sup>51</sup> Surely more of the money given to Oxfam benefits the poor than does the money sent home by immigrants.

This objection rests on an empirical premise about the relative effectiveness of money sent in remittances and money sent to nongovernmental organizations. That is, on the claim that money sent to organizations like Oxfam would be more effective in alleviating poverty than money sent directly to family members. For reasons noted above, this premise may well be false.

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50. Thomas Pogge presented this objection to the authors in conversation.

51. In the U.S. case, of course, this is not true, strictly speaking, since contributions to foreign organizations do not receive such favorable treatment. We ignore this for the moment.

Suppose, however, that donating money to Oxfam or some other organization would indeed be a more cost-effective means of using resources to fight poverty. This would not establish that tax exemption for such donations would suffice for the government to discharge what it minimally owes to the global poor. This is because immigrants would simply not give the same amount of money to Oxfam that they would give to their relatives, and they do not appear to have a duty to do so either. Given that our governments know that this is the case, they do not do enough by providing deductions for such contributions. It is true that providing refundable tax credits for charitable donations to Oxfam might be more effective in fighting poverty than providing refundable tax credits to immigrants that remit if all who could avail themselves of these tax incentives were to do so. But offering such tax incentives to immigrant remitters may do a great deal more good for the global poor given that those that are eligible for the credit are—given their motivations and interests—much more likely to make use of it.

(4) Wouldn't facilitating increased remittance flows be unfair to those in the poor country of origin who do not receive the remitted funds?<sup>52</sup>

Such flows could be deemed unfair in two ways. First, it might seem unfair that one family is able to send one of their members abroad, while others are not. Second, remitted money comes to those who are already fortunate enough that they have been able to send one member abroad, but not to the others who have not been so fortunate. It may therefore increase inequality between the poor and the very poor.

We will not try to argue that these effects of remittances are not unfair. They are indeed unfair. But this unfairness is not necessarily a sufficient ground for denying favorable tax treatment to remitting immigrants. Indeed, denying them such treatment would seem to be an instance of *levelling down*—ensuring equality in a way that makes no one better off and makes some people worse off than they would otherwise be. Suppose four people are in need and you can save only two. You ought not to abstain from saving two simply because this would be unfair to the two that you cannot save. Moreover, you ought not to refrain even if you are only able to assist

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52. This argument was suggested to the authors by Kevin Davis.

those of the four who are in less serious need (losing limbs, for example, while the two others are losing lives). Although this may be unfair against those who are not saved, it is not a reason for not assisting those you are able to assist.

There may also be ways to mitigate the unfairness against those that do not receive remittances. If we care about these unfair aspects of remittance flows, then perhaps we should indeed tax remittances but should use the money in poor countries in order to reduce the unfairness, rather than to satisfy domestic needs. By doing so we would also reduce the problem of too much money going into the hands of private individuals and too little money going into the public sector (if that is indeed a problem). If the affluent society did this, then it would not be unjust to tax remittances. It would not be unjust since the affluent society would thereby at least partly discharge its assistance-based duties—its taxing activity would be a means by which it did so.

Would this latter proposal to mitigate the unfairness stand in opposition to the immigrants' special relationship-based right to give preference to their relatives? Not if the argument for why they would be permitted to send their pre-tax earnings is based on our failure to meet our obligations with respect to the global poor, and that we therefore have lost our claim on the money. Those who eventually could be said to have a claim on the money would be the global poor, and not the immigrants or their relatives.

Note also, that even though it is unfair that immigrants send money only to their relatives, everyone in poor countries could prefer a scheme that permits it. An unfair distribution of remittances could be better for all than would feasible alternative arrangements. That is, the most likely outcome of taxing remittances would be that less money would be reaching specific families without any additional resources reaching the society in general. Of course, if there is an alternative that is *less* unfair—that provides the same amount of money to poor countries—then this is to be preferred. But it is not likely that this would occur unless the state adopted a policy of collecting taxes on remittances and used these monies effectively to deliver poverty relief.

It may pay to observe that it is far from obvious that migration and resulting remittances does create increased inequal-

ity, at least in the medium and long terms. Researchers have found that while migrant labour markets may initially increase inequalities in their communities of origin, increasing numbers of households eventually gain access to these markets through the growth and elaboration of migrant networks.<sup>53</sup> In Mexico, for example, remittances to villages with a long history of participating in international migration appears to have had an equalizing, rather than unequalizing, effect on the recipient communities.<sup>54</sup>

(5) Wouldn't granting favorable tax treatment to immigrant workers in affluent host countries be unfair to poor people in the host countries?<sup>55</sup>

Perhaps, and it might especially be unfair if the money collected in taxes otherwise would go into policies that would help these poor people. If these poor people were really very poor in absolute terms, then favorable tax treatment for migrant workers at their expense would probably not be justified. However, it is not clear that this will provide a convincing argument against granting favorable tax treatment to remitting migrants. First of all, there are many affluent countries where there may simply not be people who are even nearly as poor as the very poor in the developing world. Second, poverty in affluent countries can be attributed to badly chosen policies, and not necessarily a lack of resources. If the affluent government would use the tax revenues for purposes other than poverty alleviation, for example on wasteful military expenditures, then the mere fact that it *could* fairly tax remittances were it to use these funds in a different manner would not justify their taxing them given the way that they are in fact spending them.

## V. THE SCOPE OF THE TAX BENEFITS

Since the justification of the favorable tax treatment proposed in this essay is to reduce the extent to which the affluent are failing to discharge their duties to the poor, there is no *principled* reason why it should not be extended to anyone who

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53. Douglass Massey et al., *Continuities in Transnational Migration: An Analysis of Nineteen Mexican Communities*, 99 AM. J. SOC. 1492 (1994).

54. Oded Stark et al., *Migration, Remittances and Inequality: A Sensitivity Analysis Using the Extended Gini Index*, 28 J. DEV. ECON. 309, 320 (1988).

55. Lily Batchelder presented this objection to the authors in conversation.

spends their money in this fashion. That is, under current circumstances *any* person from some community should receive favorable tax treatment when sending money to *any* very poor person, as long as the community as a whole fails to comply with its duties toward that poor person. Unfortunately such a rule could easily be used to circumvent taxes that are levied legitimately. Implementing a system for evaluating recipients' poverty is not manageable and would likely prove far too costly and intrusive. Hence a wide general rule may not be a feasible alternative.

Given this, we need to think about how to restrict the tax incentives in two ways. First, we need to determine eligible targets for transfers that are granted favorable treatment. Second, we need to consider whether there should be limits on who is eligible to transfer resources to these targets. So far, we have talked about providing immigrants from these countries with these tax incentives. But why not let everyone who wants to send money to specific individuals in these countries do so? In principle, there is no reason not to permit this either. There may nevertheless be practical reasons not to employ such a practice. It may provide an incentive for unwarranted tax evasion. Unlike immigrants, others do not typically have strong personal incentives to ensure that their resources reach particular poor people.

If it is true that giving money to some aid or development organization is a more efficient way to combat global poverty, then non-immigrants should send their money through such organizations. This argument did not work for immigrants, however, since they are sending a great deal of money—probably far more than would be required by any moderate principle of assistance—because they believe that it will help relatives that they care deeply about, and perhaps to facilitate their own return to their country of origin in the future. It is therefore very unlikely that they will send money if they do not think it will reach their relatives. Indeed, given that they have special responsibilities to these people, it seems quite permissible for them to do this. For the rest of the population, giving money to Oxfam or some other organization may well be a more efficient way to combat global poverty, and insofar as this is the case, non-immigrants should accordingly send their money through such organizations. Non-immigrants do not have relatives in these poor countries. (Or at least very few of



them do, and it would probably be easy enough to enable those that have relatives in these countries to prove their eligibility.) As a result, they lack motivation to assist based on special ties to the specific recipients.

Of course, non-immigrants may also be motivated to send money directly to particular individuals, and if they are so motivated there is no reason in principle to deny them the same favorable treatment that would be granted to immigrants. But there are other ways in which to provide tax incentives to such people to provide these resources. For example, tax incentives can be provided to all people in affluent societies to make contributions to individuals and groups through organizations that facilitate such transfers. Organizations like Global Giving (which aims to connect donors with community projects in need of financial support) and Kiva (with its slogan "loans to change lives"), to which citizens in many affluent countries can contribute and reap tax benefits from doing so,<sup>56</sup> can provide relatively direct contact between individuals and recipients. And because it is not typically the case that individuals in affluent countries have detailed knowledge of particular individuals to whom they wish to send resources, this makes it less likely that they will have superior knowledge and incentives to ensure that the money they provide does good than would organizations based in recipient countries.

Another reason for granting immigrants tax exemption is that an affluent country might like to be more restrictive about family reunion as a method to reduce immigration.<sup>57</sup> This is both a reason for granting them tax exemption, so that they can take care of their relatives far away, as well as a justification for granting it to them but not to the rest of the population.

A further reason to grant favorable tax treatment to immigrants is their special relationship to particular people in poor countries. This could both work as an independent reason for granting them favorable tax treatment, as well as a rationale for limiting the favorable treatment to them. It is particularly distressing to know that your loved ones are in need (espe-

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56. Global Giving, [www.globalgiving.org](http://www.globalgiving.org) (last visited Apr. 23, 2010); Kiva Home Page, [www.kiva.org](http://www.kiva.org) (last visited Apr. 23, 2010).

57. Gerhard Øverland, *The Illegal Way In and The Moral Way Out*, 15 EUR. J. PHIL. 186 (2007); Christopher Wellman, *Immigration and Freedom of Association*, 119 ETHICS 109 (2008).

cially if the host country is relatively restrictive about permitting family reunion).<sup>58</sup>

Needless to say, implementing policies of the sort envisioned here would raise many questions about administration. And it is very likely that policies that might be well-suited for use in one jurisdiction would falter in others. We have simply claimed that the possible benefits of such policies are sufficient to warrant further intellectual and practical exploration.<sup>59</sup>

## VI. CONCLUDING REMARKS

Many of those who send remittances come from families that have a relatively good living standard at home, even though they come from poor countries, and so the money sent will not reach people in severe need. If that were generally true, then our argument would not work, and there should be no favorable tax treatment. It is important to note, however, that it is not required that the remittances reach the *poorest* of the poor, only that it reach poor people to whom we have responsibilities.

As noted earlier in this paper, there are reasons for thinking that remittances either reach a sufficient amount of poor people directly, or that the indirect benefits to them warrant favorable tax treatment to immigrants from poor countries that chose to send money to their relatives. However, since our arguments are based on affluent countries' failure to live up to their assistance-based, contribution-based, or benefit-based duties, one might wonder if it would not be better to argue directly for a compliance with these duties, or whether there are not many other possible institutional reforms that would be more effective in bringing about such compliance.

In practical terms, we are agnostic about this. It could very well be more effective to engage in direct arguments for why affluent people ought to address global poverty. But then again, it could also be effective to indicate what our failures imply with regard to the constraints against morally legitimate

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58. Note that this argument does not depend on the affluent country failing to comply with the host countries' duties to the global poor.

59. We hope in a companion paper to provide a more detailed sketch of how policies of the sort we envision might be implemented in various national contexts.

taxation. This could have two beneficial consequences. First, it could simply lead to favorable tax treatment for immigrants who send remittances. Second, it could indirectly lead to a slightly increased rate of compliance with our duties, as our failures are made salient through the exposition of the constraint against legitimate taxation of immigrants.

In theoretical terms, however, this is no objection to our proposal. Even though we might be wrong in devoting our limited resources to write this paper, our conclusion is correct. Provided certain empirical assumptions are sound, and that affluent countries do indeed fail to live up to their duties toward the global poor, then funds remitted by migrants from poor countries to relatives in their country of origin should be given favorable tax treatment by the tax authorities in the affluent host countries in which they work. We have not argued that bringing about a scheme of granting favorable tax treatment to migrant workers that remit funds back to their country of origin should be the most important priority for action. Whether these policies should be a priority for action cannot be determined in advance of intellectual and practical exploration. There are of course other competing priorities for action, the choice among which ought to depend upon the probable long-term effects of pursuing them. The policies discussed in this article are one of many possible means of increasing the extent to which affluent persons can discharge their duties to the global poor.

