Global Basic Income and Financial Globalization

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Fourth draft, June 15, 2008

The point is often made, with evident justice, that it is impossible to have, in the foreseeable future, a democratic global state. This is indeed so .. [but] we need not put the possibility of global democracy in indefinite cold storage. It is not an "all or nothing" choice, and there is a strong case for advancing widespread public discussion, even when there would remain many inescapable limitations and weaknesses in the reach of the process. -- Amartya Sen (2006, p. 184)

1. Introduction

Financial globalisation has been subject to insufficient ethical discussion. This essay explores the ethical dimensions of contemporary financial globalization. It first describes financial globalization, focusing on the dramatic impacts, intended and unintended, of this process on social and individual welfare. It then presents some ideas about an ethical benchmark for evaluating this process.

2. Financial globalization in the contemporary age

Global finance involves lending, investment, and financial transactions in which creditors or owners are in one country and debtors and assets in another. Financial globalization, in turn, refers to a period – like the present – when global finance encompasses a growing number of economic units, in a steadily growing number of countries. Defined in this broad way, global finance includes both cross-border lending, foreign direct investment, and banking with either the domestic or overseas offices of foreign-owned banks.

If we follow the convention of many financial economists, and accept a market-equilibrium framework as a reference point for evaluating innovations in financial markets, then we would expect substantial welfare gains from opening an economy with per-capita levels of capital below the world average to offshore financial flows and institutions.[1] Asset owners should improve their risk/return opportunity set, while production and employment should increase due to overseas loans and investments.

But this simple conclusion from first theoretical (equilibrium) principles has not been borne out in practice. Since the late 1970s, financial globalization has attracted increasingly critical attention because its accelerating pace has been accompanied by more frequent global financial crises. In essence, financial globalization is unfolding in a real world whose characteristics are

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[1] MacDougall (1960) established the basic theoretical insight; King and Levine (1993) elaborated on the implications for allocative efficiency.

far removed from textbook cases: a world in which exchange-rate fluctuation can heighten borrowing costs, and in which freer financial flows give speculators more leverage to pressure nations whose exchange rates they regard as unsustainable and likely to be devalued. In a floating rate, sovereign-borrower situation, imbalances are difficult to manage because markets react swiftly to any hint of crisis: "overshooting" and self-fulfilling prophecies regularly occur.

Analytical defenses of freer financial flows tend to disregard financial instability, because it is viewed as an exogenous imposition on market forces, not as a recurrent, endogenous component of financial dynamics. Similiarly, they overlook the existence of asymmetrical global financial power among major players – nations and firms -- in the international economy, despite the fact that this asymmetrical power frames the scope of action and the nature of recourse for each player. The international financial markets are a clear instance of contested exchanges.[2] A notion of asymmetrical power can be introduced here to facilitate discussion. There are, first of all, strong and weak countries within the global financial system. This is not a simple calculation, but involves multiple aspects. A nation's strength depends on its reserve holdings, on whether its currency is held or traded abroad, on its trade balance, and on the level and growth rate of its GDP, among other factors. There are, secondly, corporations involved in global trade and finance. Again, these vary in strength, based on capitalization, on global profits and employees, on access to markets, and other factors. Different levels of national and corporate strength and weakness have both ex-ante and ex-post implications in cross-border financial exchanges. Ex-ante, greater strength converts into better terms and conditions within the contract itself. Those with higher incomes and earnings and larger and more secure markets can demand, and receive, concessions. For example, providing credit for a long-term investment project via a sequence of short-term contracts protects the liquidity of the credit supplier. Ex-post, greater strength means more and better recourse options. Insurance – a fall-back position in the event that expectations are disappointed – is more readily available to the stronger nations in global exchanges; the weak enter cross-border contracts with no guarantees, implicit or explicit.

When a nation is perceived by major market players as weak and unable to sustain its policy path, two kinds of crises can occur. In a currency crisis, a national currency suddenly plummets as those holding the currency dump it, and demand disappears. In a financial crisis inside the borrower country, the structure of financial commitments made between owners, banks, and borrowers collapses. When cross-border lending has flowed from a strong-currency country to a country with a historically volatile currency, these two forms of crisis tend to come together. The reasons are structural. Borrowers often count on generating revenue from selling abroad: but when the currencies in which they buy become more expensive, and the currency in which they sell loses value, profit margins and the capacity to repay both shrink.

Financial and currency crises cause pain and loss. There are no set rules for calculating or distributing the costs of such crises except those implicitly dictated by asymmetric power relations. So depending on those relations at macro and micro scales, individual borrowers are forced into bankruptcy and personal traumas; companies are dissolved, banks fail, and jobs are lost.

[2]See Bowles and Gintis (1993) seminal contribution.

The very fact that developing-world states explicitly or implicitly underwrite lender-borrower arrangements involving economic units within their borders indicates their relative weakness: for if these go bad, the state "assumes" the bad debt. If it cannot meet these obligations, the International Monetary Fund (IMF) can provide emergency financing and dictate a range of adjustments. These are designed to rid the borrower country of "bad" fiscal habits and position it to repay. These interventions often mandate that fiscal expenditures be cut, that publicly-held assets be privatized, and markets opened to overseas firms and owners. This is where social costs arise in financial crises. Cuts in fiscal expenditure mean reduced spending on health, education, retirement programs, and so on. Indeed, the state must often subsidize bankrupt entities to make them attractive to prospective buyers. So the poor get poorer; middle-income families, workers, business-owners lose income and security; and clinics and schools are squeezed. The locus of human costs is usually far removed from those who made the decisions about what should be borrowed, and on what terms.

Other impacts of crisis arise indirectly due to the opening of markets to new participants and practices. In developing countries, banking and financial systems have often been protected realms, that have captured all national savings at "below-market" interest rates, and guided them into targeted investment sectors. Entry by overseas banks changes everything. These banks will be interested primarily in 'upscale customers.' These upper-income customers will enjoy enhanced investment options, including the ability to invest in overseas assets. This increase of individual freedom for participants in the 'upscale financial' game often comes at the cost of reduced general banking services for the broad mass of people. The reason is that domestically-chartered financial firms now competing with foreign banks must meet global banking standards; this forces them to increase their net revenues relative to their assets. This means fewer implicit cross-subsidies for very low-balance customers; all customers now must 'carry their own weight'.

3. Implicit moral perspectives in the theory of developing-country borrowing

How has financial globalization been assessed in ethical terms? Neoliberal economists and officials affiliated with the IMF and World Bank have a broad consensus approach, which implicitly extends the moral perspective for assessing a closed economy – that is, the welfare theorems underlying microeconomic theory -- to the global sphere. A market economy that permits more cross-border financing options entails more individual freedom, and hence more efficiency in resource use, than an economy that does not.

This economistic approach has, in turn, developed two principal models to explain financial crises. One view, applied more to currency than lending crises, attributes these events to "sunspot" effects – self-fulfilling prophecies based on nothing more than a spreading fear that a given currency will lose value.[3] This accidents-happen approach leaves open who should be held liable: for if *what has happened* (crisis) is independent from *what should have happened in the absence of random noise,* then why should the borrower nation take on obligations of economic agents within its borders – and why should those in the borrower nation suffer reduced incomes and social services?

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[3]See Obstfeld 1986.

A second model, applied more to lending than to currency markets, sees lending as a principal-agent game characterized by asymmetric information and moral hazard. Crises of repayment, when they occur, can be traced to borrowers' guile. The borrower-nation's state, because it has not prevented such bad behavior through appropriate regulations, is ultimately the responsible party. Indeed, asymmetric information models of cross-border lending and crisis treat the entire borrowing nation as one "agent" in a bargaining game with overseas lenders.[4] This posits a naturalized hierarchy of obligation, in which states can be held accountable by entities across national borders. The fiction that the borrower nation commits national resources as an *agent* in a bargain erases intra-national distributional issues, as well as class and political conflicts. The open question about whether those not involved in cross-border borrowing decisions should pay for others' misjudgments disappears. Consequently, the question of who loses out in crises has drawn virtually no analytical attention from economists. So as Polanyi (2001) observed, in this perspective the social damage that often accompanies the liberation of markets, including widening social inequalities, should vanish away as a deepening-of-markets strategy proceeds.

Heterodox economists and analysts affiliated with global civil-society movements, focusing on asymmetric global power rather than microeconomic asymmetric information, have developed a scathing critique of these economistic analyses.[5] In this alternative view, financial crises stem from multinational financial firms' efforts to exploit markets abroad. These firms often overlend, due to competitive pressures, disaster myopia, and an excessive focus on short-term returns: that is, it is primarily lenders and not borrowers who are to blame. Financial crises often work out to these firms' longer-term advantage, and push borrower nations' economic units along in the global race to the bottom.

4. Is an ethical benchmark for financial globalization necessary?

These differing views of the implications of financial globalization hardly prepare the ground for a careful consideration of the possibility of an ethical benchmark for financial globalization. The conceptual polarization reviewed above stands in the way.

Those analysts who believe opening markets will eventually generate more global prosperity don't see any need for an ethical discussion about these economic dynamics. These analysts would define as unethical only intentionally unfair behavior by lenders, thus establishing a standard that empirical studies are very unlikely to meet.[6] Meanwhile, those convinced that opening markets widens the global rift between rich and poor have already judged the global system to be unfair.

In any case, the problems pointed above as chronic results of financial crises in globally weak countries -- reduced state capacity to provide a social safety net, increasing levels of inequality and socially-dysfunctional behavior, and so on – are rendered invisible by the analytical strategies used to characterize the core behaviors of borrowers and lenders generating these

[4]See Eaton, Gersovitz, and Stiglitz (1986). See Dymski (2006a) on recent financial crises.
[5]See Eatwell and Taylor (2000).
[6]This has been the trajectory of the economics literature on racial discrimination in U.S. credit markets (Dymski 2006b). In any event, unfairness of this sort has a ready solution in this approach – making markets more competitive, which means making them more freely open.

crises. Implicitly, the invisible victims of debt crisis are subject to asymmetric-power plays by those capable of extracting expected economic rents without having to bear the full expected costs associated with default. That is, it is a design problem.

If the nation-as-agent framework is set aside, and nations involved in international financial relations are understood as complex compilations of individuals, then this design problem becomes explicit. That is, are there circumstances in which the downside risks associated with entry into international financial relations can be fairly shared? Specifically, if it is rational to anticipate the possibility of a financial crisis as one outcome of financial globalization (the other outcome, in the simplest case, being the attainment of higher growth rates), then it is up to the residents of the country considering this option to create appropriate guarantees and loss-avoidance mechanisms.

However, lower-income nations may not succeed in achieving political consensus about all possible economic outcomes because of wealth inequality and globalization.That is, even if there is the political will within those countries to protect the poor from disaster in the face of an adverse financial-globalization outcome, there may not be the means. Specifically, Nussbaum (2006) shows that interpreting political arrangements as equivalent to Rawlsian social-justice experiments, based, i.e., on the prospects of mutual advantageous cooperation among similarly placed participants, is much more relevant, the less inequality among political participants there is.

Thinking about financial globalization in this context helps us understand why this is true. Creating the possibility of cross-border flows of individual wealth-holdings and investment and credit commitments, when these flows were previously restricted, creates new and desirable customers (those with higher incomes and more wealth) for globally powerful financial firms. As noted above, multinational firms sometimes attain the ability to attract the wealth of these customers only after financial crises force the opening of developing-countries' markets. But this may undermine expectations about fair burden-sharing in the wake of adverse economic outcomes. For promises can be made; but these all will involve pre-commitments by an autonomous state to lower-income households. Keeping these promises in times of crisis is another thing. If higher-income households have even more post-crisis options than pre-crisis options for moving their wealth offshore, then a state that attempts to implement any equalizing redistributive (and burden-sharing) policies may find its policies undercut. That is, the Rawlsian state loses autonomy and the capacity of action, and hence legitimacy, when financial crises in situations of extreme global inequality are possible and even predictable.[7]

[7]The case of the 2001 Argentina crisis is the exception that proves the rule. There, numerous offshore banks had entered the market pre-crisis, in hopes of capturing business in the rapidly-expanding economy. When the Argentine economy went into crisis, foreign banks closed operations and the government distributed a large portion of the costs of this crisis to those with significant bank deposits (specifically, by forcing them to absorb some of the costs of devaluation). Things have played out quite differently in virtually every other developing country that has experienced financial crisis.

Ever more economists and economic institutions -- including some transnational institutions[8] -- are willing to concede that liberalized financial markets may be deepening global inequality. So, one question is what to do about it, if anything. Can economic engineering remove ethical concerns in advance by installing policies that assure overall economic prosperity? Economists' reactions to this question fall into several lines of thought. One point of view, embodied by the work of William Easterly (2006), is that economic engineering by public authorities is a hazardous pre-occupation, with uncertain outcomes. No engineering is possible for poor countries because none is possible for the rich: let markets work, and keep non-market actors out of their way whenever possible.

A second point of view among economists is that the adverse outcomes associated with financial globalization are part and parcel of a global system that generates systematically unfair outcomes. This unfairness, in turn, is rooted in structural inequality that locks most nations in the developing world into slower rates of income growth and higher poverty levels than would otherwise be possible. Eatwell and Taylor (2000), for example, argue that structural economic inequality leads to disproportionate cost-sharing (to the disadvantage of the global South) in the wake of economic crises, and also to post-crisis global-South macroeconomic policy mixes that slow economic growth rates.[9] In effect, some players have economic power, due to market power, technological advantage, colonial legacies, or other factors; and these players impose losses on those without it. Implicitly, a fundamental shift in global power relations will be required to change this structural differential.

A third point of view has been exposited by Mitchell and Watts (2005) and by Tcherneva and Wray (2004). These authors assert that it is more fundamentally misbegotten economic policies that entrap poor nations than any pre-existing set of economic inequalities. While acknowledging the importance of the dead hand of the economic past, these authors assert that even lower-income nations' governments have the power to generate full employment and prosperity for their residents. The key mechanism is two undertapped powers of sovereign governments: first, the power to print financial claims on itself (that is, currency) as needed to finance whatever expenditures it wishes to make; and second, the ability of such governments to create mechanisms assuring that every adult can find employment. That is, only the widespread adoption of this form of Keynesian doctrine can lift each nation's people out of poverty.

While the issues of economic engineering and structural inequality, if not taken to their extreme, paralyzing, form, may be important to the extent that they point to likely constraints on ethical and policy solutions, the latter argument is hardly satisfactory and in fact has been subjected to criticism from various perspectives. An important factor is that financial-market instability rooted in asymmetric global economic power constitutes far more of a threat to developing, lower-income nations than to richer nations. For one thing, richer nation-states have greater

[8]Note the shift between the 2005 and 2006 editions of the *World Development Report* (World Bank 2005, 2006. In the new report, the asymmetric information framework mixes somewhat with our asymmetric economic-power framework: inequality of wealth and power is seen as a major factor in the practices of price discrimination and credit rationing in financial markets.
[9]Also see the assessment of the global effects of financial liberalization by Eatwell and Taylor (1998) and Berg and Taylor (2000). Other studies concluding that structural global inequality have reversed or slowed economic growth in the global South include Ganuza and Taylor (1998) on Latin America, Ros and Lustig (2000) on Mexico, You and Lee (2000) on Korea, and Dutt and Rao (2000) on India.

recourse options than poorer ones in crisis periods. For another, developing nations are subject to disciplinary market reactions if they pursue policies that are too expansionary: their currencies will be devalued, their access to borrowing markets will be restricted, and the terms and conditions on which they can borrow will worsen.

5. An ethical benchmark for assessing the effects of financial globalization

Because of the dramatic political and economic implications of the substantial asymmetric global economic power in the contemporary period, we think it important to look for an ethical benchmark for assessing the effects of financial globalization. This section suggests one such benchmark: it proposes an evaluative space and a fairness principle to assess and redress the consequences of financial globalization, and it takes individuals, not nations, as the bearers of the valued object. The latter is a consequence of our following Nussbaum's (2006) remark that in the global economy relatively weak nation-states on their own may be unable to secure their citizens the valued object – we take up this specific point in section 6.

In influential economists' positive assessments of financial globalization, it is often its ability to enlarge economic freedoms and thus deliver economic efficiency that which ethically commends it. As we have seen, this assessment is not consensual: for some skeptics, unintended consequences may make policy makers refrain from intervening; for others, structural and durable inequalities are hard to remove.[10] So the challenge we face is to provide a benchmark that takes cognizance of the reality of unintended processes and "overintended" ones and still makes sense of notions of freedom and efficiency. We begin by subjecting the normative ideas of freedom and efficiency to scrutiny; then we add the explanatory dimension of unintended and overintended processes.

Intuitively, freedom in association with the idea of expanding human material possibilities by eliminating limiting aspects of frontiers and barriers seems desirable. But this notion is clearly insufficient to assess globalization in its many forms, and especially *financial* globalization. For we know that this enlarged freedom is not universally shared; we also know of some of its undesirable consequences, among them the limitation of states autonomy to enact public policies, increasing systemic instability, and proliferation of financial crises, all of which have important distributive implications. So we need a broader idea of freedom that is sensitive to its distributional side: Is everyone as equally free as they could possibly be? Are the consequences of having more freedom as agreeable to everyone as it could possibly be?

A drawback of neoliberal economists' approach is that, when assessing economic arrangements, it tends to concentrate on economic freedoms, especially the property rights aspect of it.[11] Implicit in this view is the idea that market institutions, as non-coercive mechanisms for

[10] Extreme consequences of these premises are Hirschman's perversity thesis (public policy end up by generating the opposite of what they intended) and the futiliy thesis (intervention is futile; it has no capacity whatsoever of changing the world).

[11] Although not always explicitly articulated in economits's assessments of market arrangements, this aspect, together with self-ownership from which it may be derived, is emphasized by libertarian conceptions of justice (see Van Parijs 2003). Among the defenders of some version of this notion of freedom, we may include Nozick (1974), Hayek (1993), and Epstein (2002).

acquiring and transferring legitimate property rights, are just by virtue of respecting these rights; they necessarily deliver end results that are justified whatever they are. Incidentally, economic freedoms are essential to generate efficiency, i.e., to make sure that resources flow to the best uses. So, on top of being respectful of economic freedoms, markets are efficient economic institutions, this property being the most acclaimed quality of market mechanisms.

A different conceptualization has been suggested by a quite robust family of normative theories, gravitating around John Rawls'groundbreaking *A Theory of Justice*. It undertakes to articulate a conception of *real* freedom, in opposition to a merely formal and perhaps also negative notion of it, and in addition to its connotation as economic freedoms alone. One such conceptualization is provided by two economists-philosophers, Amartya Sen (1990), as substantive freedom of choice among lives people have reason to value or "capabilities", and Philippe Van Parijs (2003), as the comparable conception of "real freedom". In this framework, economic and other institutions and their consequences are linked: the freedom that rests in having capabilities then becomes a criterion for evaluating the institutions that generate (or fail to generate) that consequence. The underlying idea is that freedom is only meaningful when it has an opportunities-dimension. This has also entailed, in these approaches, a further extension of the notion of freedom beyond Rawls contribution, to comprise inter-individual and intergroup variation. This point is forcefully made by Sen and also undertaken by Van Parijs: the capability/real freedom approaches take on board the important question of the different conversion rates of resources into achievements of different people.

That is, real freedom asks what the real options are for real individuals to choose among meaningful lives, in which they can among other things safely trade property rights and have their self-ownership secured. This enhanced definition of freedom calls attention to the *worth* of freedom for individuals, as Rawls (1971) aptly put it.

As for efficiency, we propose the notion of *fair* efficiency. The idea of fair efficiency accommodates a concern with social justice – that is, with limits to inequalities of real freedom – within an assessment that also takes note of aggregate outcomes. Although, a concern with equity is conventionally taken to be external to the discussion of efficiency, and sometimes even inimical to it, we, in contrast, think it important also in order to render determinate economists's notion of efficiency. Actually, in view of the vague instructions given by the Pareto efficiency principle, we can view principles of distributive justice as selection devices to choose among the multiple Pareto optima that may obtain as a result of economic cooperation.[12]

Again we elaborate on the Rawlsian tradition here, in that social arrangements are not to be assessed exclusively in terms of an aggregate measure of the advantages they promote but also in terms of the distribution of these advantages. In particular, we follow Rawls' notion that one institutional arrangement is superior to another when it maximizes the advantages (or prospective advantages) of those who are least advantaged in the political community. Rawls proposed this in connection with the so-called difference principle, which regulates the distribution of income and wealth to the advantage of the least-advantaged, while guaranteeing that this priority is subordinate to the prior implementation of the equal basic liberties and fair opportunities principles. That is, what is envisaged is a two-stage process whereby the distribution of basic

[12] See Kerstenetzky 2002 for the idea of the difference principle as an efficiency principle. See also Rawls' (2001) discussion of the contribution curve and his diagrammatic construal of equal justice lines.

freedoms and opportunities are first corrected by equal distribution and then the remaining economic inequalities are constrained by the difference principle. Strictly speaking, the Rawls' contribution curve is comparable to Pareto's transformation curve but not directly. First, advantages are not estimated in terms of utilities but of income and wealth, and also among the parameters of the contribution curve are the equal basic liberties and fair opportunities. So, in this additional sense the idea of fair efficiency is captured not only by the selection of the Pareto optimum which maximizes the prospects of the less well-off but also by the fact that the cooperation among the badly off and the better off unfolds against a background of equal liberties and opportunities.[13]

We take this fairness picture as roughly reconcilable with Van Parijs' conception of advantage as "real freedom" – essentially, a contraction of basic liberties and broad opportunities, which abides by a "soft" version of the Rawlsian lexicographic rule.[14] In the context of market arrangements, then fairness recommends market arrangements that maximize the real freedom of the least-advantaged.[15] Here "real-freedom-for-all" in this sense is adopted as a fairness or fair efficiency principle.

There are many different ways of implementing real-freedom-for-all redistribution. While the circumstances of the least advantaged are not fully captured by their market incomes, one influential proposal for operationalizing real-freedom-for-all involves supplementing the market distribution of income by distributing a sizable *universal and unconditional* basic income (UBI) – mainly, not exclusively, in cash.[16] At first shot, this policy proposal may appear to be hardly reconcilable with the multidimensional character of the many opportunities needed for people to lead the kinds of lives they like. But this unfortunate opposition would occur only on an unlikely extreme version of it. The focus on income is not exclusive: it is not meant to replace the important prior focus on the many basic freedoms and it is not necessarily in confrontation with other non-income opportunities. Part of the objection is ill-founded in the conflation of income with private consumption, which is certainly inaccurate: income may be used to pay taxes to fund public policies that provide services and other guarantees of real freedom, with the attractive feature in terms of a freedom approach that the social choice is left to the discretion of the individuals.

UBI is based on a rethinking of property rights. First, Van Parijs extensively criticizes the perspective of taking property rights as natural rights pointing to the fact that extant entitlement rights actually derive from an institutional framework that legitimizes previous distributions of endowments, and regulates acquisition and transfer based on what people "own." But neither natural resources nor accumulated social capital[17] (including physical and financial capital, and knowledge) have natural private owners: property rights over these things have been extended to private owners due to institutional arrangements.

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[13] See Kerstenetzky 2002.
[14] See Van Parijs (2003).
[15] In Van Parijs's rendering, real-freedom-for-all is a leximin – it prioritizes the least-advantaged, and then moves up to levels of society that are successively better-off.
[16] Van Parijs (2005) provides a critical introduction to the UBI; for a fuller account of this concept, see Vanderborght and Van Parijs (2005).
[17] We use social capital in the sense used by Herbert Simon (2001), as accumulated capital of non-natural origin, "principally as stored knowledge" (35).

Nagel (2001) recalls what he says is “both perfectly obvious and remarkably easy to forget”, i.e., that private property is a legal convention. Having a political nature, property rights are neither out of reach regarding justice scrutiny nor thus beyond redefinition. The current focus on a naturalized version of these rights is behind many of economists’ contemporary myths and misconceptions: one of the myths is that market outcomes are just per se, since they result from exchanges well-grounded in private rights, state interference being somehow a violation of these sacred rights and always in need of justification (so the possible source of injustice is external to the markets operation); one of the misconceptions is that without respect to private rights no sound economic activity and development will be ever possible, since there will be a high degree of uncertainty in the economic environment. As for the precedence of property rights over state interference, Nagel notes that without “an elaborately structured legal system governing the acquisition, exchange, and transmission of property rights” no such rights would even exist, which of course does not mean that there are no limits for state interference but that the system of property rights are as well not beyond evaluation. As for the claim regarding the functionality of respect of private rights to economic success, this is unwarranted; while it may be granted that predictability per se is an important feature of any system of property rights and an important basis for economic activity, the question regarding precisely what scheme of property rights, even *private* property rights, outperform the other is largely an open one.[18]

We here merely register that private ownership of natural resources is a familiar contested issue, where you can hardly make an argument that its possession derives from the quite uncontested condition of self-ownership. But also private ownership may be contested of what Herbert Simon has called “social capital”, meaning overtime accumulated knowledge stored in many forms of capital assets. Likewise for the rights over other valuable assets that result (or have resulted) from opportunity hoarding, i.e., barriers that exclude others from the use of opportunities and generate, for the hoarders, attractive economic rents, unrelated to their productive returns. In the context of financial assets, the contested nature of their property rights, grounded in institutionalized asymmetric power relations, has already been highlighted, but we shall return to this specific topic in the next section.

In all this accumulation and appropriation story it is really difficult to disentangle intended processes (intended acts of expropriation of people from common property, active opportunity hoarding activities, exercises of market power) from unintended ones (historical processes, interactions, random events) behind the final distribution; in addition, the enterprise seems to be rather unimportant. For, still, from a real freedom-for-all perspective the end result may look quite unjust: the situation of the least advantaged is not as good as it could possibly be. So a rethinking of property rights seems cogent, especially where the extant system seems to hamper freedom (instead of promoting it, as emphasized in the rather thin version of freedom as respect for extant property rights). This rethinking is not only cogent but also justifiable in view of the contested nature of most of these rights. The members of the political community may thus yield their claims over the common entitlements – the set of assets whose private appropriation may be contested on similar grounds - in favor of their private owners provided that the latter compensate them at the highest possible amount. That is, the private owners of these entitlements should pay “rent” to non-owners. In the end, although contributing to promoting the maximization of the real freedom of the least advantaged, UBI is not motivated by a moral

[18] See on this issue the literature on efficient redistribution; a useful reference here is the volume...

concern for assisting the less well-off: it is substantially about redistribution of citizenship rights. So, although it is a way of assisting the implementation of real-freedom-for-all, it does not entirely coincide with it.

Of course questions regarding the precise amount of the redistribution and other specifics are to be solved with the assistance of various other considerations in addition to the entitlement view, especially those regarding its sustainability. For example, a concern with the *maximum* of real-freedom-for-all requires that we also pay attention to incentives and their coordinating role (e.g., a tax on the valorization of the asset may then be considered superior than a tax over the property of the asset); a concern with a *minimum* amount may also advise that we introduce a distribution principle of sorts (we have in mind not particularly rich but unequal societies).[19]

On top of the common-resources rationale for the UBI, there is the uncertain nature of market successes and failures. In the market game, jobs may be lost, occupations may disappear, investments may vanish, technologies may be overcome: almost everything is in a constant state of transmogrification. This broadly recognized economic fact constrains us not to treat opportunities exclusively as resources individuals take to the market in order to carve out a certain outcome. That is even a correction of the unequal distribution of opportunities in the usual sense might not suffice. The case of education is very instructive: in the knowledge economy era, the egalitarian policy of expansion of educational opportunities and of schooling at large has been almost everywhere accompanied by the expansion of inequality both between and within educational groups. In addition to the way extant basic institutions distribute property rights over valuable natural and social assets, the reason why some succeed while others fail is luck, and luck is nobody's merit as well as nobody's fault.[20]

This conclusion led thinkers such as Friedrich Hayek to conclude that social justice is pointless:[21] since we cannot single out a culprit of the final distribution being what it is, for we cannot similarly stop the blind forces of markets from being what they are, there is no justification for social justice. At least, markets preserve free choices and do not discriminate against individuals or groups, thus they can be looked as a pretty fair procedure. Besides, this procedure delivers economic and knowledge growth. But this very same fact may lead to a different conclusion if we focus on consequences not on "guilty": the blind forces of the market, though blind at the micro level (we cannot exactly tell who is going to lose or win), are pretty predictable in terms of some of the meso-level consequences– the groups that are going to be hit harder and those that are more likely going to win, or to lose less in a bad event for everyone, because they are hedged in many valuable assets -, and macro-level consequences, i.e., the fact that left on their own, markets forces have been remarkably impotent to bring about a reasonable betterment of the situation of the least advantaged. So, social justice seems still meaningful. However, as an orientation for redistribution, determining the contributions of usual opportunities and luck even in any one case may be impossible. A characteristic feature of the UBI is that it may accommodate such concerns via a straightforward rule that minimizes abstruse and uncertain calculations: it is a rent paid by the lucky private owners of common resources to everybody else, stipulated at the highest level consistent with its sustainability. Of course, other policies focusing on opportunities in the usual sense may still be valid.

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[19] See Kerstenetzky 2008 for a discussion of this idea in connection with the Bolsa Familia program.
[20] See Kerstenetzky (2002) on the influence of the factors discussed here.
[21] See Hayek (Law, Legislation, and Liberty...).

6. Ethical questions raised by financial globalization and crisis

A question remains: to what extent is this proposed ethical benchmark globally applicable?

Does it make any sense to speak of a global "community" in the first place? The reality of global economic interdependence is undeniable, for the good and for the bad. It has taken the character of a global intercourse more than an interstate or international one. The epiphenomenon has been the unprecedented global flows of goods, services, capitals, and to a lesser extent, people, which have followed the opening of markets. The multiplicity of actors who take the decisions and play the global economic game in various capacities is equally impressive: corporations and financial institutions, governments, non-government organizations, transnational official actors, in addition to individual or collectives of wealth holders and global 'civil society' movements. In particular, since the 1970s, global financial markets have acquired ever more autonomy, leaving nation-states with ever less control over money and credit, their traditional prerogative.

Ironically, then, this globalization process *is* creating a community, irrespective of the intentions of those involved. Offshore decisions by firms, banks, customers, governments, and transnational actors affect daily life everywhere, even in remote rural areas of peripheral countries. In a further irony, the very advances in communication and information technologies that have helped release markets from national states' control are also permitting connections among people across countries on an unprecedented scale.

The distribution of the fruits of global cooperation is certainly objectionable. From a real freedom perspective, on the one hand, capital has never been so free, and yet its hyper-mobility has been associated, especially in the case of financial flows, with heightened levels of *instability* and with debt *crises*, which have compromised national political communities' capacities to sustain – much less increase – real freedom for all. Global market power asymmetries have generated important ethically objectionable inequalities of real freedom.

As noted, financial globalization has a distributional global impact through both macro and micro channels. At the macro level, financial globalization restricts debtor countries' abilities to design and implement growth and welfare policies, with impacts in turn on disadvantaged people in those countries. At the micro level, globalization has led indirectly to the financial exclusion or exploitation of the least-advantaged.[22] Further, financial globalization impacts different people in different ways in crisis and non-crisis periods. In non-crisis periods, cross-border financial flows increase opportunities and returns disproportionately for non-poor people, directly and indirectly. But crises trigger micro and macro adjustments that adversely affect real-freedom-for-all, especially in lower-income countries. Financial globalization renders within-countries fair distributive arrangements less likely insofar as the better-off may increasingly opt out of the social contract.

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[22] Since the neoliberal period began in 1980, banks in deregulated markets have bifurcated (or trifurcated) their customer bases: they have provided privileged access to low-cost financial services and credit for upper-income customers, while requiring lower-income customers to pay higher fees and rates for the services and credit they receive. As formerly closed markets with tightly regulated markets are opened – voluntarily or after financial crises. This argument is elaborated in Dymski (2005).

Given that: (1) systemic risks threaten the fiscal capacity of debtor countries to finance a UBI nationally and, generally speaking, credibly and legitimately to conceive and implement a fair redistribution within its borders; (2) exercises of market power by multinational banks within national markets violate market freedoms and extract monies from the less advantaged, deepening inequality and reducing real freedom in these countries; then, if the UBI is to be applied as a public policy at all it could only be applied at the level of the global community by global institutions.[23] States, on their own, especially weak and poor ones, cannot properly take care of their nationals anymore: financial globalization enhances within-border inequalities and mitigates national states public policy autonomy.

So the prospects of FG from a real freedom for all perspective are depressing, unless redistribution is undertaken at a global level. The entitlement view behind the UBI provides an additional argument for compensation for the skewed distribution of the advantages of financial globalization.

Two global institutions that are especially crucial for these distributive outcomes at the macro level can be identified: one is property rights what might be termed "global liquidity;" the other is the set of financial rules that regulate adjustments in debtor nations after debt crises (see Dymski 2006c).

Liquidity is a term that has many definitions in economic theory (see Warsh 2007). A financial asset is liquid insofar as its owner can sell it without delay and without any discount; a financial market is liquid insofar as sellers can find buyers instantaneously and without discounting the price of the assets they sell. One important characteristic of any financial asset is whether it can be sold without any significant discount or time delay in a foreign market; if so, then that asset can be said to possess "global liquidity." Global liquidity is distributed asymmetrically across different nations, and to a lesser extent across assets within any given nation. Global liquidity is likely to reside in assets issued in nations whose currencies are readily accepted in transactions and as stores of value elsewhere on the globe. Whether this is the case for any nation depends on whether that nation's financial authorities can function as a lender-of-last-resort if and when its national financial/banking system is threatened by a large-scale financial or currency crisis (Dymski 2008).

Individuals that control globally-liquid assets (such as residents of global South countries that have deposit accounts in Europe) can protect their resources from the consequences of economic and political events in their home countries. Nations whose assets are globally liquid are more able to survive financial shocks without serious disturbance to their core financial institutions and production/consumption patterns than are other nations. Arguably, global liquidity is a positional good – that is, a good whose value derives from its social scarcity. That is, global liquidity is finite.

Pagano (2006) has argued that some goods that are crucial for national economic development – and for individual welfare – are positional. In particular, he singles out reputational and intellectual goods; among these is money. A currency (or financial assets denominated in this

[23] Those adversely affected will have particular demographic, cultural, and spatial identities in different countries and regions: residents of rural areas or "favelas", women, children, disadvantaged minorities, etc.

currency) which has a reputation for being very safe is likely to be globally liquid. This quality of being highly liquid is socially determined – the more a set of assets in a given currency is held and exchanged, the more its liquidity reputation will be reinforced. Behind this reputational feedback loop, however, is a system of differential national power, which is reflected in part in the globally uneven distribution of lender-of-last-resort capability. When crises are realized, they are likely to have asymmetric consequences: financial crises in nations possessing lender-of-last-resort capacity will most likely have transitory consequences, at least in the short run; such crises in nations that are unable to protect the integrity of their currencies or their financial systems are likely to ravage banking and financial relations. Indeed, a common result in the latter circumstance is the opening of these nations' markets to penetration by foreign-owned financial institutions.

Those possessing global liquidity can, in effect, claim socially wasteful rents that deepen the gulf between the real freedom levels of the rich and non-rich the world over. And their opportunities to do so are enhanced in the aftermath of significant financial crises. This brings us to the set of financial rules that govern adjustments in global South nations after financial crises. In the neoliberal era (1980 onward), the IMF has been called in to provide a financial lifeline to those nations so afflicted by crisis that their reserves and/or their financial capacity is exhausted. This has not been done in a economically neutral way. Instead, the IMF has insisted on agreement to a prescriptive set of macroeconomic and microeconomic policies for the recipient country. At the macro level, the IMF has insisted on reductions in government spending, and especially cuts in social-welfare and government-enterprise spending; it has insisted on economic austerity; and it has pushed for a new orientation toward establishing and sustaining a trade surplus. At the micro level, the IMF has pushed for opening the recipient nation to cross-border investors and firms.

These rules have been applied more harshly in global South nations than in other nations (Stiglitz 2006, Chang 2007). In addition, because lender-of-last-resort capacity is unevenly distributed across the globe, the IMF's harsh adjustment rules are in practice invoked only in globally weak nations that run afoul of financial crisis. Dymski (2008) contrasts the situations of Latin America and the United States after the financial crises of the 1980s, and also the situations of Mexico and the United States after the 1990s' crises. These incidents demonstrate that biased adjustment rules, which throw the burden of adjustment on the borrower's shoulders are also a source of rents for owners of global liquidity (the lenders), who possess the socially scarce good of monetary security.

Our argument does not assert that the capacity-sapping financial crises that have occurred in the global South are intentional. Things do not work so simply. But if no one wants any given global South nation to fall into crisis, it is certainly true that the prior distribution of global liquidity and the rules for post-crisis adjustments foretell what will happen when crises do occur. This structure – which links post-crisis outcomes to pre-crisis distributions of power and resource – certainly embodies a set of intentions on the part of those who make the rules. In the end, we have a case of a mix of intended and unintended processes, which end up creating an objectionable distribution of advantages for which UBI represents an appropriate compensation.

As noted, control over global liquidity and over global financial rules is asymmetrically distributed. An entitlement view of globally liquid assets would ask current owners of this asset to pay rent over its exclusive use to everybody else. To the extent that global financial rules are also biased towards the holders of global liquidity, permitting lender countries to collect economic rents, these rules should be corrected to eliminate the rents: money redistribution is clearly not enough if extant rules keep depowering nation-states. The elimination of rents to promote real-freedom-for-all will thus require both a redistribution of property rights on global liquidity and a revision of transnational financial rules (in favor of the global South – those without possession of global liquidity or lender-of-last-resort capacity).

Regulation to introduce a more balanced view of how to share the risks among lender and borrower countries, important as it is, should be complemented by regulation over capital flows themselves to reduce systemic instability and the likelihood of crises (which also adversely affect real freedom for all). Again, as in the case of a global UBI, capital controls can only be effective if undertaken at the transnational level. For however politically accountable they are, contemporary states cannot adequately look after their citizens: global financial markets react quickly to perceived (or anticipated) policy changes. Actually, despite differences in regulatory capacity, states today are facing a Catch-22: if they protect themselves via capital controls or other measures, they face the prospect of capital outflows; if they do not, then they must consider maintaining austere policies and privatize to reassure global financial markets.[24] Competition among countries for capital inflows is likely to be predatory, with the usual victims: less income-secure people and countries. In this way, proposals such as the "Tobin" tax on global financial transactions, coordinated by transnational institutions, could reduce outbreaks of financial crises and fund a global UBI, as well as help empowering national states to an important extent.

If we can devise principles and policies that at the same time directly enhance the capabilities of individuals (as a global UBI might do) and somehow relax the pressure of unregulated financial markets over national states, the latter's capacity for enacting policies is likely to increase. (The UBI could, for example, be distributed following a priority rule that prioritizes globally less advantaged people up to the point where a minimum amount has been reached after which it would be equally distributed.) Drawing on the stabilizing and redistributive intervention of transnational institutions, weaker states should then be able to guarantee financial access to low income people under fair conditions to address micro impacts of financial globalization, and also undertake other regulatory reforms with a view to restructuring national banking systems. This, in addition to retrieving at least part of the lost autonomy to enact other public policies of interest of its residents.

In this setting, transnational financial institutions could play a very different role than at present. For example, they could develop criteria for determining multinational financial firms' fair-share contribution to national, regional, or global UBI resource pools. They might develop regulations aimed both at reducing the frequency of crises generated by capital flows, and at deepening real-freedom-for-all. In short, their mission would shift from mediating or distributing the bads accruing from unbridled competition among countries, to organizing and delivering the benefits of cooperation. This view contrasts strongly with the current focus on state level interaction, mediated by transnational institutions. The latter has implied at best an agreement on minimum patterns of human rights and aid, with transnational institutions exerting oversight. Our view is that, by collecting global taxes to fund a global UBI and regulating capital flows, these

[24] However, the recent cases of China, Malaysia and Chile suggest that new parameters for national policy autonomy may be emerging.

institutions should exert not only an assistance function but also a redistributive one.[25] And by significantly counteracting asymmetric global power relations, they would also assist citizens world over to fulfill the agency and participation dimensions of their freedom and strengthen their national states' capabilities.

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[25] The idea of civil-society governance of global finance is explored in Scholte and Schnabel (2002). The contrast between aid and redistribution is proposed in Beitz (1999).

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