CENTRO DE ESTUDOS SOBRE
DESIGUALDADE E
DESENVOLVIMENTO

Center for Studies on Inequality and Development

Texto para Discussão Nº 25 – Julho 2010

Discussion Paper No. 25 – July 2010

Can Financial Globalization be ethically appealing? A capability-real freedom for all assessment

Gary A. Dimsky - University of California Center Sacramento; Visiting Professor, UFF
Celia Lessa Kerstenetzy – CEDE-UFF

Departamento de Economia
Universidade Federal Fluminense
Rua Tiradentes, 17 - Ingá - Niterói - RJ

www.proac.uff.br/cede

Can Financial Globalization be ethically appealing? A capability-real freedom for all assessment

Gary A. Dymski and Celia Lessa Kerstenetzky[*]

Third draft, July 30, 2007

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

---

[*] Respectively, University of California Center Sacramento (gary.dymski@ucop.edu) and Universidade Federal Fluminense, Niterói, Rio de Janeiro, Brazil (celiakersten@gmail.com). This paper has been prepared for the 2007 Conference of the Human Development and Capabilities Association, New School University, New York, September 17-20.

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

attention because its accelerating pace has been accompanied by more frequent global financial crises. In essence, it has become ever clearer that financial globalization is occurring in a real world whose characteristics are far removed from textbook cases: a post-colonial period in which exchange-rate fluctuation can heighten borrowing costs. Freer and larger financial flows give speculators more leverage to put pressure on nations whose prevailing 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 often 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 largely dictated by asymmetric power relations. Individual borrowers are forced into bankruptcy and personal traumas; companies are dissolved and sold, banks fail, and jobs are lost.

2 See Bowles and Gintis (1993) seminal contribution.

Developing-world states are regarded as explicitly or implicitly underwriting lender-borrower arrangements involving economic units within its borders; so when these go bad, the state "assumes" the bad debt. If it cannot meet these obligations, the International Monetary Fund (IMF) provides emergency financing, and dictates 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?

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. So, crises are in the nature of the economic system.

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

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.

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 crises. Implicitly, the invisible victims of debt crisis are subject to perverse 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.

Nussbaum (2006) shows however that lower-income nations may not succeed in achieving political consensus about all possible economic outcomes because of global income inequality. That is, even if there is the political will within a country to protect the poor from disaster in the face of an adverse financial-globalization outcome, there may not be the means. Specifically, Nussbaum shows that interpreting political arrangements as equivalent to Rawlsian social-justice experiments is much more feasible, the less inequality among political participants.

Thinking about financial globalization in this context helps explain 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 undermines any Rawlsian promises about 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 and areas. 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.

When substantial inequality in economic resources exists among nations, so that the landscape is one of haves and have-nots, then Rawlsian bargains are even more problematic. There is less to share – so those few who have the means to live a good life are less likely to want to share that via post-Veil redistributions. Nussbaum notes that Rawls did not anticipate this problem, because he did not, in his nation-centered model, include the possibility of huge asymmetries of wealth and income among nations. Rawls' supposition that the problem of extending his social-justice model from the nation to the globe was simply a matter of reinterpreting "citizens within a nation" as "nations within a global system," depended on the nations involved having similar economic levels; for in this case, global Rawlsian bargains would be equivalent to risk-pooling. But when substantially different levels of national economic power and resources exist, the weak have no means of persuading the rich to resource-share if and when crisis outcomes occur. So the Rawlsian nation-based approach breaks down in the case of substantial global inequality.[8]

So the degree of inequality within and between countries is important when it comes to cope with adverse effects of financial globalization: less developed countries have less policy options, the more inequality there is; inequality undermines the "condition of agency" of a considerable part of these countries' citizenry.

Ever more economists and economic institutions -- including some transnational institutions[9] -- 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, into higher-than-average poverty levels, and so on. 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. Eaton and Taylor (2000), in exploring the implications of structural economic inequality for economic outcomes in lower- and upper-income nations, embody this approach. Implicitly, there is not much to do either, unless an unlikely radical change in the global system occurs.

---

8 Nussbaum concludes, building on the ideas of Beitz (1979) and Pogge (1989), that only a global Rawlsian bargain – a Veil-experiment that, in effect, sets a global standard for economic justice – can serve as an accurate benchmark for global justice.

9 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.

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.

This argument has been subjected to criticism from various perspectives. But 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 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 profound political and economic implications of the substantial asymmetric global economic power in the contemporary period, the answer to the question posed above – is an ethical benchmark for assessing the effects of financial globalization necessary? – is taken here as yes. This section suggests an ethical benchmark for this assessment: 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 remark that in the global economy relatively weak nation-states may be unable to secure their citizens the valued object. In the next section, we argue more extensively for its extension to the global "citizens".

In positive assessments of financial globalization, it is often its ability to enlarge economic freedom and thus deliver economic efficiency that which ethically commends it. So we begin by subjecting the notions of freedom and efficiency to scrutiny. Freedom is a critically important idea insofar as expanding human possibilities by eliminating the limiting aspects of frontiers and barriers seems desirable. But how can the idea of freedom accommodate not only efficiency, with its usual emphasis on aggregate economic outcomes, but also social justice, i.e., a mix of values, among which a concern with inequality?

Neoliberal economists' approach concentrates too much on the property rights and self-ownership aspects of freedom, roughly, the so-called economic and personal freedoms.[10] In this view, market institutions, as non-coercive mechanisms for acquiring and transferring legitimate

[10] These aspects are emphasized by libertarian conceptions of justice (see Van Parijs (2003)). Among the defenders of some version of this notion of freedom, we may include Nozik (1974), Hayek (1993), and Epstein (2002).

property rights, necessarily deliver end results that are justified, and hence just. But when freedom is conceptualized as capabilities in Sen's (1990) sense, i.e., substantive freedom of choice among lives people have reason to value, or as real freedom in Van Parijs' (2003) comparable conception, 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 also entails that freedom is envisioned for real people in their heterogeneity, not for a representative, idealized individual. This point is forcefully made by Sen (1990): the capability/real freedom approach takes on board the important question of the different conversion rates of resources into achievements of different people.

That is, real freedom recognizes not just the formal freedom elements (security and self-ownership), but also the opportunity aspect; it 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. Among the opportunities, in addition to opportunities for well-being, we may include the opportunity of choice itself as well as the opportunity to participate in relevant decisions, in particular, in the choice of the relevant public agenda.[11] This enhanced definition of freedom calls attention to the *worth* of freedom for individuals, as Rawls (1971) put it.[12]

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. Here, 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, while guaranteeing that the priority on the least advantaged is lexicographically subordinate to the implementation of the equal basic liberties and fair opportunities principles. But if we take advantage to mean real freedom – a contraction of basic liberties and broad opportunities which abides by a "soft" version of the Rawlsian lexicographic rule[13] - and consider market arrangements, then fair efficiency recommends market arrangements that maximize the real freedom of the least-advantaged.[14] Here real-freedom-for-all in this sense is adopted as a fairness or fair efficiency principle.

While the circumstances of the least advantaged are not fully captured by their market incomes, one important proposal for operationalizing real-freedom-for-all involves supplement the market

---

11 See Sen (1996) for the distinction between these aspects of freedom, which we have slightly modified here.

12 There is however an important difference between Sen's and Rawls' proposals regarding the measurement focus, whether on the "means to freedom" (Rawls) or the "extents of freedom" (Sen). See Sen (1992).

13 See Van Parijs (2003).

14 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. This shifting of Rawls' criterion toward a "real" guarantee of a decent life, and away from a merely procedural guarantee, embodies Nussbaum's point that closed-border Rawlsian bargains are not sufficient in a world characterized by substantial international inequality.I agree with your point but the sentence in the text does not provide support for it.

distribution of income by distributing a sizable *universal and unconditional* basic income (UBI) – mainly in cash, but also in kind (public goods)[15]. UBI is based on a rethinking of property rights. Extant property rights derive from an *institutional framework* that legitimizes previous distributions of endowments, which in turn distribute economic rights of acquisition and transfer based on what people "own." But neither natural resources nor accumulated social capital (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 that privilege the property rights aspects of freedom. In the context of financial assets, the contested nature of their property rights, grounded in institutionalized asymmetric power relations, has already been highlighted. If real freedom-for-all is instead privileged, social fairness dictates that the private owners of common resources that belong to the citizens of a political community should pay "rent" to non-owners. So the UBI is not motivated by a moral concern for assisting the poor: it is substantially about distribution of citizenship rights.

This said, many challenges will have to be faced in implementing the UBI. In particular, since we care about the maximum of real-freedom-for-all, it will be important to maintain a coordinating role for incentives.

On top of the common-resources rationale for the UBI, there is the somewhat uncertain nature of market successes and failures. This additional fact further constrains us not to treat opportunities exclusively as resources individuals take to the market in order to carve out a living. 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.[16] Determining the contributions of these various elements even in any one case is impossible. The UBI, by contrast, accommodates such concerns via a straightforward rule that minimizes abstruse and uncertain calculations: it is a rent paid by the lucky private owners of commonly possessed resources to everybody else, stipulated at the highest level consistent with its sustainability.

6. Ethical questions raised by financial globalization and crisis

An important question remains to what extent the proposed ethical benchmark is globally applicable. Does it make any sense to speak of a global "community" in the first place? Since the 1970s, global financial markets have acquired ever more autonomy, leaving nation states with ever less control over money and credit. Ironically, then, this globalization process *is* creating a community, irrespective of the intentions of those involved. Offshore decisions by firms, banks, customers, and governments 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.

---

[15] Van Parijs (2005) provides a critical introduction to the UBI; for a fuller account of this concept, see Vanderborght and Van Parijs (2005).

[16] See Kerstenetzky (2002) on the influence of the factors discussed here.

Is there any notion of justice applicable to such a wide community? The circumstances of justice are certainly there. Capital has never been so free, and yet its hyper-mobility has been associated with heightened levels of *instability* and with debt *crises*, which have compromised political communities' capacities to sustain – much less increase – people's real freedom. Global power asymmetries have been responsible for 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 been in most cases a vehicle for spreading mechanisms of financial exclusion of the least-advantaged.[17] 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.

This seems to lead directly to the insight that UBI should be applied to the *global* community, for systemic risks threaten the fiscal capacity of debtor countries to finance a UBI nationally; and exercises of market power by multinational banks within national markets violate market freedoms and extract monies from the vulnerable, deepening inequality and reducing real freedom.[18]

In addition, the redistributive rationale behind the UBI seems well suited to compensate for the skewed distribution of the advantages of financial globalization. Two global institutions that crucially affect these distributive outcomes at the macro level are property rights over an increasingly important global asset, "global liquidity," and the set of financial rules that regulate adjustments in debtor nations after debt crises (see Dymski 2006c). Those possessing global liquidity claim socially wasteful rents that deepen the gulf between the real freedom levels of the rich and non-rich the world over. Biased adjustment rules that throw the burden on the borrower's shoulders, in turn, are also a source of rents for owners of global liquidity (the lenders), who possess the socially scarce good of monetary security.

7. A more just world with financial globalization

Creating a more just world – one with more real-freedom-for-all – in the era of financial globalization poses challenges at many levels. As noted, control over global liquidity and over global financial rules is asymmetrically distributed. This permits lender countries to collect rents whose legitimacy has been challenged here. Eliminating these rents to promote more real-freedom-for-all will require both a redistribution of property rights on global liquidity and a revision of transnational financial rules. To reduce the likelihood of systemic crises, which also

17 See Dymski (2005).

18 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.

adversely affect real freedoms, capital flows should be controlled at a transnational level. A "Tobin" tax on global financial transactions, coordinated by transnational institutions, could both reduce outbreaks of financial crises and fund a global UBI, thus turning a world with financial globalization into a more just one.

Drawing on the stabilizing and redistributive intervention of transnational institutions, states should then be able to guarantee financial access to low income people under fair conditions to address micro impacts of financial globalization. This access should be included in the real freedom set. Wealth redistribution will help guarantee this access, since possession of wealth is the key to having access to fair financial conditions. Regulatory reforms or new public institutions, both involving some restructuring of national banking systems, can also insure this access is provided in a sustainable way for those with lower incomes.

An important question remains what system of governance can reduce the real-freedom-for-all losses that have accompanied financial globalization? Alternatively, how can UBI become a core component of the global economic system? Several meta-solutions have been proposed, ranging from a multi-state social contract to a cosmopolitan view of the rights and duties of people and institutions.[19]

The multi-state social contract approach presents important limitations in the financial globalization context. However politically accountable they are, contemporary states cannot adequately look after their citizens in the current moment: global financial markets react quickly to perceived (or anticipated) policy changes. 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.[20] Competition among countries for capital inflows is likely to be predatory, with less income-secure people in these countries the most likely victims.

Shrinking welfare states and increasingly selective social policies are certainly not the first best from a universal real-freedom perspective. The cosmopolitan idea of global justice asserts that doing better as a world community necessitates that global consumers/producers be reframed as world citizens. In a global social contract, real-freedom-for-all might emerge as the guideline principle for the reform and outright creation of institutional structures that regulate world economic integration. Then the well-being of a citizen of any country – one whose banks' excessive lending created social crises elsewhere, one experiencing such crises, one not

19 We take the distinction between a multi-state social contract and a cosmopolitan view from Beitz (1999). The former model is illustrated by Rawls's (1999) proposal for a social contract among 'peoples', whereas the latter stems from treating the global community as a political community (a 'people') and working out the implications in this setting for Rawlsian "justice as fairness." Held (1995) represents a seminal contribution on the issue of democracy in the cosmopolitan view.

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

considered a desirable target for such lending – might be evaluated using a uniform ethical framework.

This framework suggests a global UBI based on a global evaluation of natural resources and social capital, and focused on advancing the global real freedom of *individuals*. Funds for this grant could come from many different sources.[21] Given that no method of devising a world *government* has been put forward, operationalizing a global UBI means establishing an effective structure of world *governance*. To focus on people's real freedom in a world with national states will certainly require some means of incorporating intermediary political communities -- sub-national, national, and regional, as well as transnational – into a multilayered governance structure. It will require an application of the principle of subsidiarity, wherein lower levels will decide on how to implement policies, while higher levels have oversight. The essential idea is that a multilayered governance structure can deliver the basic real freedoms to global citizens that national states alone no longer can.[22]

In this setting, international 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 focus on state level interaction, mediated by transnational institutions, typically endorsed by the multi-state social contract approach. The latter implies 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 institutions should exert not only an assistance function but also a redistributive one. [23] And by significantly counteracting asymmetric global power relations, they will assist citizens world over to fulfill the agency and participation dimensions of their freedom.

8. Conclusion

Financial globalization has not yet entered the terrain of serious ethical discussion. This essay has suggested, in rough outline, one possible ethical approach to current processes of financial globalization. We have argued that because global finance has generated recurrent losses for economically vulnerable countries and individuals, via complex and uncertain cause-effect linkages, an adequate ethical response involves establishing some level of global real-freedom-for-all linked to global finance. This approach leads to questions about the uses of markets, the nature of property rights, and the nature of "humans' rights."

---

21 Alternatives suggested for financing a global UBI range from progressive income taxes (Frankman 2002) to seigneurage rights over a single global currency (Frankman 2002 and Huber 2000) to a uniform global tax on a sustainable level of pollution (Van Parijs, 2002).

22 See Koenig-Archibugi (2002) and Thakur and Van Langenhove (2006).

23 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).

There are surely other approaches to be discovered and debated. Global social pressure is mounting; the views of experts are in flux. As Sen suggests in the passage cited at the beginning of this essay, more ideas and voices are urgently needed.

BIBLIOGRAPHY

Beitz, Charles, (1979), *Political Theory and International Relations*. Princeton: Princeton University Press.

Beitz, Charles, (1999), 'International Liberalism and Distributive Justice: A Survey of Recent Thought', *World Politics* 51(2).

Bowles, Samuel, Gintis, Herbert, (1993), 'The Revenge of Homo Economicus: contested exchange and the revival of political economy', *Journal of Economic Perspectives*, 7(1), 83-102.

Caney, Simon, (2005), *Justice Beyond Borders: A Global Political Theory*. Oxford: Oxford University Press.

Corsetti, Giancarlo, Paolo Presenti, and Nouriel Roubini, (1999), 'What Caused the Asian Currency and Financial Crisis?' *Japan and the World Economy* 11, 305-73.

Dymski, Gary, (2005), 'The Globalization of Financial Exploitation,' February 2005, Mimeo.

Dymski, Gary A., (2006a), 'Banking and Financial Crises,' in *Handbook of Alternative Monetary Economics*, Ed. by Philip Arestis and Malcolm Sawyer. UK: Edward Elgar. Pp. 385-402.

Excluído: *edited by*

Dymski, Gary A., (2006b), 'Discrimination in the Credit and Housing Markets: Findings and Challenges,' in *Handbook on the Economics of Discrimination*, Ed. by William Rodgers. Cheltenham, UK: Edward Elgar. Pp. 215-259

Dymski, Gary, (2006c), 'Money as a Positional Good and Global Power Asymmetries: Reflections on 'Positional Goods and Asymmetric Development', *Econômica*, 8(2), Niterói, Brazil.

Easterly, William, (2006), *The White Man's Burden*. New York: Penguin Press.

Eaton, Jonathan, Mark Gersovitz, and Joseph Stiglitz, (1986), 'The Pure Theory of Country Risk,' *European Economic Review* 30, 481-513.

Eatwell, John, and Lance Taylor, (2000), *Global Finance at Risk*, New York: New Press.

Epstein, Richard. (2002), "Against Redress". *Daedalus*, Winter, 39-48.

Frankman, Myron J., (2002), 'A Planet-Wide Citizen's Income: Espousal and Estimates,' Paper presented at the IXth Congress of the Basic Income European Network (BIEN), Geneva, 12-14 September 2002.

Hayek, Friedrich V.., (1993), *The Constitution of Liberty*, London: Routledge.

Held, David, (1995), *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance*, Cambridge: Polity Press.

Huber, Joseph, (2000), 'Funding Basic Income by Seigneurage,' Paper presented at the VIIIth Congress of the BIEN, Berlin, 6-7 October 2000.

Kerstenetzky, Celia Lessa, (2002), “Por Que Se Importar com a Desigualdade”, *Dados – Revista de Ciências Sociais*, 45(4).

Kindleberger, Charles P, (1996)*, Manias, Panics, and Crashes: A History of Financial Crises*, Third edition, New York : Wiley.

King, Robert G., and Ross Levine, (1993), ‘Finance, Entrepreneurship, and Growth: Theory and Evidence,’ *Journal of Monetary Economics*, 32, 513–42.

Koenig-Archibugi, M., (2002), “Mapping Global Governance”, in: D. Held and A. McGrew (eds.), *Governing Globalization: Power, Authority, and Global Governance*, Cambridge: Polity.

Lucas, Jr., Robert E., (1990), ‘Why Doesn’t Capital Flow from Rich Countries to Poor Countries?’, *American Economic Review*, 80(2), 92-96.

MacDougall, G.D.A., (1960), ‘The Benefits and Costs of Private Investment from Abroad: A Theoretical Approach,’ *Economic Record* 36, 13-35.

Mitchell, William, and Martin Watts, (2005), ‘A Comparison of the Macroeconomic Consequences of Basic Income and Job Guarantee Schemes,’ *Symposium: Basic Income Guarantees and the Right to Work: BIG versus ELR,* 2 Rutgers Journal of Law & Urban Policy 64, Fall.

Nozick, Robert, (1974), *Anarchy, State and Utopia*, Basic Books.

NUSSBAUM, M.

Obstfeld, Maurice, (1986) ‘Rational and Self-Fulfilling Balance-of-Payments Crises,’ *American Economic Review* 76(1), 72-81.

Pogge, Thomas, (1989), *Realizing Rawls*, Ithaca: Cornell University Press.

Polanyi, Karl, ([1944]2001), *The Great Transformation: The Political and Economic Origins of Our Time*. Boston: Beacon Paperbacks.

Rawls, John, (1971), *A Theory of Justice*, Cambridge, MA.: The Belknap Press of Harvard University Press.

Rawls, John, (1999), *The Law of Peoples*, Cambridge, MA.: Harvard University Press.

Scholte, Jan Aart, editor, with Albrecht Schnabel, (2002), *Civil Society and Global Finance,* London: Routledge.

Sen, Amartya K., (1990), *The Standard of Living – The Tanner Lectures*, ed. by Geoffrey Hawthorn, Cambridge: Cambridge University Press.

Sen, Amartya K., (1992), *Inequality Reexamined*, Cambridge, MA.: Harvard University Press.

Sen, Amartya K., (1996), 'Freedom, capabilities and public action: a response', *Notizie di Politeia*, 43/44, 107-125.

Sen, Amartya K., (2006), *Identity and Violence: The Illusion of Destiny.* New York: W. W. Norton.

Tcherneva, Pavlina R., and L. Randall Wray, (2004), ‘Common Goals--Different Solutions: Can Basic Income and Job Guarantees Deliver Their Own Promises,’ *Symposium: Basic Income*

Guarantees and the Right to Work: BIG versus ELR, 2 Rutgers Journal of Law & Urban Policy 5, Fall.

Thakur, R. and Van Langenhove, L., (2006), "Enhancing Global Governance through Regional Integration", *Global Governance* 12(3), 233-8.

Van Parijs, Philippe, (2002), 'Does basic income makes sense as a worldwide project?' Closing plenary address of the Xth Congress of the BIEN, Geneva, 12-14 September 2002.

Van Parijs, Philippe, (2003) *Real Freedom for All – What (if anything) can justify capitalism?* Oxford: Clarendon Press.

Van Parijs, Philippe, (2005), *What's Wrong with a Free Lunch?* Boston: Beacon Press.

Vanderborght, Yannick. & Van Parijs, Philippe., (2005), *L'Allocation Universelle*, Paris: La Découverte.

World Bank, (2005), *World Development Report.* Washington, DC: World Bank.

World Bank, (2006), *World Development Report.* Washington, DC: World Bank.