
Stephanie Seguino
Professor, Department of Economics
University of Vermont
Burlington, VT 05401
stephanie.seguino@uvm.edu

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Abstract
This paper argues that the roots of the current global crisis are linked to increased inequality within and between countries, strongly in evidence since the 1970s. Proposals for changes to the financial sector regulatory framework and international financial architecture while welcome, are not sufficient to alleviate the inherent macroeconomic constraint that inequality produces – insufficient aggregate demand and thus high levels of joblessness. I discuss here a framework for utilizing macro-level policies to promote both greater equality and economic growth or what we might call “equity-led” growth.
The Way Forward in the Wake of the 2008 Global Economic Crisis Does the Stiglitz Commission Report Go Far Enough?

I. Introduction

The last three decades have been witness to over 100 financial crises. This instability follows on the heels of a period of relative global economic stability that began at the end of World War II. The Great Recession that began in 2008 is thus only the most recent disruption in an increasingly unstable global economy. This crisis began and has continued in the US, an important player in shaping global macroeconomic policy due to the power it wields in the World Bank, IMF, and WTO. For this reason, with the major global economic player now wounded and limping from the effects of the crisis, we may have reached a transformational moment to leverage systemic change.

Many would agree the path the global economy has been on for the last several decades is indeed the wrong one. This period has been characterized by growing polarization within and between countries, a slowdown in global economic growth at the same time that environmental degradation is gaining speed, economic volatility, and greater limitations on the state to promote broadly shared well-being. Rather than hit the “reboot” button in response to the crisis, there is both a brief space and a strong justification to rethink our previous path and to forge a new one.

One might not expect bold new thinking from institutions such as the international financial institutions (IFIs), implicated as they have been in perpetuating and enforcing a market liberalization strategy that many would agree is a root cause of the current crisis. In contrast, the United Nations, with less ideological limits on the breadth of discourse and debate, has served as a catalyst for new thinking on how to reshape the global economy. The Stiglitz Commission, assembled at the behest of the United Nations, issued a final report embodying some of the most progressive economic thinking articulated in public debates in recent decades. This paper considers the main points of that report, and asks, “Does that report go far enough?”

To anticipate the response, the answer is no. While the recommendations of that report represent a fundamental breakthrough in the policy realm, advocating a greater balance between state and markets, it does not underscore and address the key cause of the crisis – the growth of inequality. Although the proximate cause of the Great Recession that began in 2008 was the financial crisis, prompted by the subprime mortgage debacle, its deeper roots were linked to the widening income and wealth gap that accelerated over the last three decades. Policies that will move us to a sustainable path of improvements in
living standards require that we operate from a macroeconomic framework that
enables greater equity with growth. That involves “disciplining” capital – not
only financial interests but also footloose corporations and global producers that
rely on outsourcing – so that firms align their profit interests with broader social
and economic interests.

II. The crisis is not just a financial crisis

Many analysts have emphasized the immediate causes of the Great Recession –
the meltdown of the subprime mortgage market in the United States (US).
Facilitated by a period of financial sector deregulation, banks and investment
firms seemed to run amok, with the development of exotic financial instruments
and “teaser” loans that bordered on predatory lending, combining to produce
toxic assets.1 The period of deregulation that began in the 1980s ushered in a new
era of finance, with banks shifting their focus to more speculative financial
activities away from the necessary if unglamorous day-to-day business of
accepting deposits and extending loans to facilitate firm investment and
household consumption that fuel job growth.

Deregulation did not happen without a push from the financial sector
itself. The accumulation of power by financial elites over the last two decades has
been used to fund an anti-regulation lobby, targeted toward policymakers and as
a result regulatory agencies. The result has been what amounts to regulatory
capture: public agencies charged with regulating in the public interest instead
acted in favor of the financial sector (or turned a blind eye to the practices) they
were charged with regulating. A steady flow of new financial products that
received no scrutiny or oversight from federal agencies increased the availability
of finance and expanded the pool of eligible (if not viable) borrowers.2

A clear lesson emerges from this crisis: human economic behavior is not
always and everywhere rational. The tendency toward irrationality (e.g.,
engaging in herd behavior, believing that housing prices will continue to rise
forever, and thus failing to identify an asset bubble for what it is) underscores the
necessity to regulate markets, especially in finance.

While it may have been irrational for investors and homeowners to
assume that housing prices would continue to rise indefinitely, this was in fact a
manufactured crisis. The “bubble” resulted from a frenzy of activity due to funds
pouring in from other sectors of the economy; the financial sector developed new
financial instruments to enable them to lend at a rapid rate, artificially driving up
asset values. Focus on these immediate causes of the crisis, however, has
obscured inquiry into the deeper roots of the crisis related to the growth of
income and wealth inequality within and between countries over the last three
decades. As the data in Table 1 show, the growth of inequality, measured as the
income ratio of the richest 20% of households to the poorest 20%, has accelerated
rising from 30:1 in 1960 to 103: in 2005. We can label this a “Kaleckian” crisis,
after Polish economist Michael Kalecki, a contemporary of John Maynard
Keynes.
It will be recalled that Keynes located the epicenter of capitalist crises in business investment. Keynes underscored the irrationality and instability of market economies, primarily due to volatility of business spending. Volatile business spending may be due to irrational exuberance, or what is more likely, irrational pessimism. In the latter case, doubts about profitability (rational or not) lead firms to cutback investment spending, leading workers to being laid off. The fall in their incomes provokes a decline in aggregate demand, thus worsening the economic downturn.

Kalecki took the demand-side analysis of Keynes further, underscoring the relationship between inequality, output, and growth. In short, if income becomes concentrated in the hands of the wealthy, aggregate demand will fall, and with it, employment and output. Why is this so? The wealthy tend to spend a smaller share of their income, and thus have higher saving rates than groups with less income. A redistribution of income to the wealthy then results in higher saving rates, but a reduction in aggregate demand. Businesses respond to reduced demand by cutting back on production and laying off workers. A Kaleckian framework for understanding the current crisis then requires an analysis that identifies the sources of growing inequality within and between countries and traces the linkages of inequality with the global economic downturn.

Table 1. Ratio of incomes of richest 20% of households to poorest 20%

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
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<tbody>
<tr>
<td>1820</td>
<td>3:1</td>
</tr>
<tr>
<td>1870</td>
<td>7:1</td>
</tr>
<tr>
<td>1913</td>
<td>11:1</td>
</tr>
<tr>
<td>1960</td>
<td>30:1</td>
</tr>
<tr>
<td>1991</td>
<td>61:1</td>
</tr>
<tr>
<td>1997</td>
<td>74:1</td>
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<tr>
<td>2005</td>
<td>103:1</td>
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</tbody>
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What factors have contributed to global inequality over the last three decades? The twin policy shifts towards trade and investment liberalization have made it easier for firms, especially multinationals, to move production from high- to low-wage countries to reduce costs of production in order to prop up profits. Trade liberalization has allowed firms to then export their goods back to high-wage countries. But at least some workers in high-wage countries are worse off, since their jobs have been exported. The negative effect of job losses spills over to depress the wages of workers in high-income countries who still have jobs. As a result, aggregate demand falls in rich countries, and corporations push on to set up production in ever lower-wage sites as a means to buoy profits.
Another strategy is to engage in outsourcing, leading to a “hollowing out” of manufacturing in rich countries as corporations purchase inputs offshore. In both cases, firms have become more mobile, and with that mobility comes increased bargaining power to hold down or lower the wages of workers in both rich and developing countries. But it is those very same workers whom firms rely on to buy the goods they produce. Alas, with lower or stagnating wages, product demand falls. This dynamic suggests systemic failure; no single agent is responsible, but power imbalances in a market economy produce outcomes that outcomes the health of the system.

In contrast to the current period, in an earlier time when wages rose along with GDP (the so-called Golden Age of Capitalism from 1945-1973), firms reinvested their profits in order to expand output to meet the rising demand for their goods. Simultaneously, they hired more workers, creating a virtuous cycle of rising incomes for middle- and low-income families, increased demand for goods and services that benefits firms’ sales and thus profits, and as a result, rising employment.

In contrast to the earlier period of wage-led growth, the dampened demand and stagnating wages observed over the last three decades (and by definition, rising profits shares of income) have resulted in a lack of profitable opportunities for firms to expand output. In response, corporate strategies have shifted from “retain and reinvest” (that is, retain profits) to “downsize and distribute” (Lazonick and O’Sullivan 2000: 18). The last decade and a half has been witness to a variety of mechanisms by which firm profits have been funneled out of the productive sector of the economy to the financial sector. Mergers and acquisitions have absorbed a large chunk of firm profits. Share buybacks, whereby firms repurchase some shares from existing shareholders to concentrate ownership, have been one use of excess cash that firms decline to employ in expanding output.

Shareholders have in turn funneled their increased earnings per share to financial markets. A result has been the flood of funds to the financial sector, which in some ways found itself in a situation akin to that of the big banks during the decade of the OPEC oil crisis. It will be recalled that the dramatic increase of oil prices in the mid 1970s left major banks awash with cash (so-called Petro Dollars) that they then were propelled to lend to developing countries. The banks’ tactics in lending Petro Dollars led them to be labeled “loan pushers” by some, reflecting the pressure they applied to sovereign governments to borrow and their willingness to lend to authoritarian leaders whose track record for effectively using loan funds was at best doubtful (Darity 1988).

In the current period, financialization of industrialized economies, particularly that of the US, which led to a surfeit of loanable funds in the hands of financial institutions—a surfeit we might label the Bubble Dollars—enticed banks and other financial institutions to develop exotic loans at teaser rates, and other financial instruments to expand lending into the housing sector. Analysts have noted that many of the so-called subprime loans were “predatory” (a term that refers to loans made under unfair, deceptive, or fraudulent conditions in the
loan origination process), targeted to people of color and single female heads of households (Dymski 2009; Montgomerie and Young 2008).

Households of color and/or lone mothers were also those that have been struggling to cope with declining economic conditions of low or falling real wages, higher health care and education costs, and reductions in employer contributions to pension plans. Motivated by these economic stresses, many vulnerable families sought to refinance their homes as the housing bubble expanded, withdrawing the equity from homes in order to maintain their living standard. Many borrowers in the subprime crisis were not on a consumption “binge”; they were engaging in a coping mechanism to survive the declining fortunes of many middle- and low-income families in industrialized countries.

The financialization of the economy had other political economy implications beyond the housing bubble and subprime lending that ultimately endangered the entire system. The growth of the financial sector and redistribution of national income to the rentier class (wealth holders) translated into increased political power for that group. The increased wealth of this sector funded lobbying efforts to convince government officials to deregulate this sector, and to provide less supervision and oversight of financial activities. The repeal in 1999 of the Glass-Steagall Act, legislation intended to create a firewall between everyday banking activities and financially risky speculative activities in the US, was only the culmination of a long period of deregulation that began under the Regan administration.

Beyond the US, financial elites have had influence at the IMF, which has championed the elimination of capital controls (the movement of finance across borders), thus leading to increased global instability but very large profits on speculation for wealth holders. At the same time, the IMF has pressured government to adopt “independent” central banks—that is, central banks liberated from pursuing government development strategies, such as targeting loans to strategic sectors of the economy or employing asset-based reserve requirements to achieve employment and investment goals. Instead, central banks in the developing and developed country world have adopted inflation targeting—a policy framework that gives central banks the obligation to use policy to keep inflation close to or at zero percent—rather than stimulating employment growth. The consequence of inflation targeting, often maintained by keeping interest rates high, is slow economic and employment growth, holding down wage growth and again, aggregate demand.

This confluence of events—the financialization of economies and deregulation—has thus been fuelled by growing inequality and in turn propel continued and expanding inequality. As a consequence, the global economy is more volatile; it is at the same time less secure due to the downsizing of governments, and with it, their ability to provide a social safety net for those most vulnerable to economic volatility.

Explanations of the crisis that focus on the emergence of an asset bubble (in this case, a housing bubble) explain only why negative effects of inequality
were delayed. They fail to place sufficient emphasis on the underlying problem, which is the negative effects of income redistribution to the wealthy on growth and well-being, as well as overall economic stability. Indeed the post-1973 period in industrialized countries can be considered one of profit-led growth. That is, a redistribution to profits from wages has stimulated growth, but a growth that is distorted, only narrowly beneficial, and unsustainable. The 2008 crisis indicates exhaustion of that model.

Figure 1 provides a schematic of the discussion in this section, outlining the effects of trade and investment liberalization, which have profoundly altered patterns of global production and bargaining power. As noted, corporate mobility has led to downward pressure on wages and the growth of equality, and subsequently to financialization and economic instability.

[Figure 1 about here].

III. The Stiglitz Commission Report

Shortly after the onset of the crisis in the fall of 2008, the President of the United Nations General Assembly established a commission of experts whose mandate was to explore the causes of the crisis, assess its impacts on developed and developing countries, suggest adequate responses to global economic stability, and offer advice on how to avoid reoccurrences in the future. The final document provided the context for a UN-sponsored global conference on the causes and responses to the global economic crisis in June of 2009.

Martin Khor of the South Centre, comments that the:

“The UN Conference on the Financial and Economic Crisis on 24-26 June, 2009 was a watershed event, which some leaders who came described as the most important UN event on the global economy since the Bretton Woods meeting “ (2009: 1).

The document, produced by a committee of 18 scholars and policymakers and headed by Joseph Stiglitz offered a decidedly different perspective than analyses emerging from the IFIs, noted for their more narrow mainstream (neo-classical) perspective and lack of intellectual diversity. The Stiglitz Commission report thus represents an alternative view of the causes and responses to the crisis. This moment in history reminds us of a similar moment at the onset of the Great Depression.

At that time, pro-market, anti-government economic theory in the form of classical economics held sway. The inability of this theoretical framework to explain the causes of the Great Depression and offer policy prescriptions undermined its efficacy. Keynesian theory emerged in its wake, able at once to understand the causes of the depression and to offer viable solutions to stabilize economies across the globe. We find ourselves at a similar transformational moment, whereby heterodox economic theory and policies have greater traction
The Stiglitz report identifies deregulation of the financial sector as a key factor in the crisis. Underscoring the observation that market participants are not always rational (they make mistakes; they cannot perfectly foresee the effects of their actions; they may be influenced by herd behavior, panics, trends, and more generally, psychological factors related to group behavior not grounded in reality) and that access to information is both imperfect and asymmetric, the Commission calls for a variety of regulatory measures to “discipline” and contain financial market power. At the same time, it offers a panoply of policy proposals designed to push financial firms to align their profit goals with broader societal well-being.

I leave the discussion of the financial sector-specific proposals for another venue. Rather, I focus here on an analysis of the broader goals outlined by the Stiglitz Commission that should guide not only financial sector reform, but more broadly, macroeconomic policy, in the years to come.

The Stiglitz Commission report underscores the primacy of a goal of sustainable and equitable growth. An important aspect of that goal is to use macroeconomic policy to ensure the creation of decent jobs, although clearly more is required in the area of regulation to ensure that jobs are “decent” than is discussed in the report. The Stiglitz Commission report further underscores the need to ensure the responsible use of natural resource, reduction of greenhouse gas emissions, and address the challenges of the food crisis and global poverty in the near term.

While the report does not offer specifics on macro-level policies, except as related to the financial sector, it proposes the establishment of an International Panel of Experts to be assigned responsibility for assessing and monitoring both short-term and long-term systemic risks in the global economy. According to the report, the panel’s focus should be on creating the conditions and advising on removing impediments to human development. To its credit and with an intellectual breath of fresh air, the Stiglitz Commission report also advocates for intellectual diversity, as well as geographically-salient representation on such a panel. This reflects the increasingly accepted view (and evidence) that diversity improves the functioning of organizations and enterprises.

IV. Assessment of Stiglitz Commission recommendations: Do they address the underlying causes of the crisis?

The Stiglitz Commission recommendations are in large part founded on the theories of John Maynard Keynes and Hyman Minsky. Students of macroeconomics will remember that Keynes was known as the “engineer of capitalism repaired.” As noted above, he linked instability in market economies to the volatility and sometimes irrationality of business investment spending. Minsky, in contrast, emphasized the inherent instability of capitalist economies.
due to financial sector tendencies towards booms and busts. Keynesian problems require a strong role for government to smooth spending. Minskyan instability requires a strong role for government to manage, regulate, and discipline the financial sector. Both policy approaches would be consistent with a rebalancing of the role of the state in regulation and promotion of full employment goals. The Stiglitz Commission report goes further, proposing a return to public banking that embraces development goals. That might include the targeting of loans to strategic industries, development of mechanisms such as asset-based reserve requirements to ensure credit is made available to specific groups (for example, women farmers, small firms that intensively use labor, and informal sector enterprises).

One type of regulation the report cautions against is trade, categorically opposing protectionism – the imposition of tariffs and quantitative quotas on imports. It is not clear whether or not this advice is directed specifically at industrialized countries. It may reflect a recollection of the negative assessments of the Smoot-Hawley Tariff Act in the US, which was intended to stem the devastating loss of jobs in the Great Depression. The act resulted in the imposition of import tariffs on over 20,000 goods in an effort to preserve jobs during the depression (by reducing imports). A number of economists argue that this action prolonged and deepened the global intensity of the depression.

Apart from the recommendations cautioning against trade protectionism (on which I will comment below), the report’s guidance offers an excellent roadmap for reigning in the excessive bargaining power of the financial elite that has emerged in the recent period of globalization, but has less to say on rebalancing corporate power. I direct my comments, however, to what I see as the main lacuna in this report – the inadequacy of the recommendations to respond to the primary casual factor in the global crisis, the growth of inequality within and between countries, and the resulting problem of inadequate aggregate demand.

V. A framework for transformational macroeconomic policy

This period of crisis in which mainstream economic theory has been called into question provides a critical moment to forge a new direction, both theoretically and in policy. Feminist economists and activists, and more generally, progressives in industrialized and developing countries have an opportunity to contribute to the definition of a transformational macroeconomic policy agenda.

The principles that guide such a framework, articulated also by the Stiglitz Commission Report, should be sustainable equitable growth that promotes the expansion of “green” jobs and earth-compatible sources of energy. Such an agenda would emphasize not only reductions in inequality and poverty, but pay particular attention to race and gender inequality.

A simple mnemonic device for encapsulated this approach would be the following equation:
\[ MP = (2K)^{FREE} \]

where \( MP \) is macroeconomic policy, the \( 2K \) refers to Keynesian and Kaleckian macro policies, \( F \) is Feminist, \( FREE \) is Racial and ethnic equality. The reference to Keynes emphasizes the need to reassert the important stabilizing role for government in guiding and managing economies. Kalecki is included in recognition of the importance of ensuring the conditions for wage-led (or equity-led) growth. And of course, the term \( FREE \) implies that policymakers must take explicit targeted macro-level steps to promote gender and racial/ethnic equality.

Key to sustainable equitable growth are a set of macroeconomic policies that ensure domestic demand-led (wage-led) growth. Wage-led growth is defined as a growth strategy in which redistribution to workers (and in agricultural economies, to small farmers) stimulates demand, and as a result economic growth. The liberalization policies of the last three decades have undermined the possibilities for wage-led growth. That is because liberalization has made it easier for firms (and finance) to move across borders or outsource. Their bargaining power relative to workers and government has increased, forcing down wages, environmental standard, and taxes. This undermines long-run productivity growth of economies and thus living standards. Why is this so? First, by depressing wages and incomes of middle- and low-income groups, the ability of families to invest in children’s well-being is lowered, and as a result, children grow up with fewer skills and readiness to be productive citizens.

Secondly, firms’ ability to rely on cheap labor coupled with the absence of labor regulation (or other forms of regulation) makes it easier to take what is sometimes called the “low road” to competitiveness. That is, by shifting the burden of cost reduction to workers’ compensation, the environment, or governments (in the form of corporate tax reductions), firms are relieved of the obligation to compete on the basis of ingenuity and innovation, thus further slowing the rate of productivity growth and improvement in living standards.

The depressing effect of firm mobility on productivity growth is confirmed by research I conducted on the impact of foreign direct investment in a group of 37 semi-industrialized economies over the period 1970-2000. In that work (Seguino 2007), I found that total foreign direct investment in a country had a negative effect on productivity growth. This finding is consistent with the view that investment and trade liberalization, by increasing firm mobility and reducing worker bargaining power and wages, has also made firms “lazy,” leading to a low-wage, low-productivity trap in a number of developing countries.

To exit the low-wage, low-productivity trap many countries find themselves in requires policies and methods to discipline not only financial interests but also businesses in the non-financial sector, similar to those pursued during South Korea’s years of rapid economic growth from 1965-1995 (Amsden 1989, 2003; Seguino and Grown 2006). Macroeconomic policies (e.g., government intervention in credit markets and trade and investment regulation) must be
designed to assist developing countries escape their inferior position in global commodity chains.

Over the last three decades, global commodity chains, whether producer-driven (e.g., Volkswagen and other auto producers) or buyer-driven (e.g., Wal-Mart, Liz Claiborne, and other garment producers) use branding as a means to extract a hefty share of the value of goods sold in industrialized economies. Because these firms globally source, they are able to pit small developing contractors, from whom they outsource, against each other in order to force down the cost of production. In so doing, these global commodity chains force down the wages of workers in developing countries; and by squeezing the profits of local contractors, productivity growth in developing countries is inhibited. This is because small contractors operate on such a thin margin they have few resources to invest in new production methods or equipment, or training, so as to raise their productivity.

There are several methods for countries to use to extract themselves from this trap. These include using macro policy to promote domestic demand-led growth, reducing reliance on exports (and thus global commodity chains). As a corollary, the promotion of import substitution would be required. And finally, insofar as countries remain engaged in trade, the promotion of south-south trade will facilitate exchange on more equal terms.

With regard to the shift to reliance on domestic demand rather than export demand and import substitution (a term the World Bank and neoclassical economists have sought to put in the dustbin of history, but a strategy the most successful Asian and indeed western economies relied on to achieve rapid growth), key is the use of industrial policy to help domestic producers develop productive capacity and eventually compete in international markets (Memis and Montes 2008). Economies that produce higher value-added goods with a larger share of demand coming from the domestic market do not experience the negative effects of higher wages that economies reliant on labor-intensive exports as a primary source of demand do.

Complementary policies would include import and export controls as needed to promote innovation and “learning by doing”, which raises productivity and competitiveness. Regulation of trade and investment are key to promoting domestic productive capacity. Appropriately applied infant industry protections give domestic firms breathing space to “catch-up” to industrialized countries, allowing them to move up the industrial ladder to production of higher value-added goods, which ratifies higher wages. In this sense, the Stiglitz Commission report, by cautioning against trade restrictions, is far off the mark on the necessary conditions to promote equitable sustainable growth.

Strategies in agricultural economies would differ from those in developing countries with larger manufacturing sectors. In Sub-Saharan African countries for which agriculture is a large share of GDP, governments could use public spending to shift investment to the agricultural sector. Policies that promote greater access for women farmers to inputs and credit are likely to yield
increases in productivity, expand output, raise incomes, and reduce reliance on imported food. This reduces pressure to export in order to earn foreign exchange to buy imports, and thus lessens the economic instability that comes with integration in global markets. It would also reduce the need for developing countries to hold such large foreign exchange reserves (to protect against volatility in import and export earnings), freeing up funds for public investment in the domestic economy.

In another example of how to rein in global commodity chains and multinationals, take the case of the Caribbean, a region for which tourism is a major source of foreign exchange. Multinational hotel chains, many of which rely on imports to supply their chains, are the largest source of investment in the tourism sector. Food supplies for all-inclusive hotels, for example, is not infrequently flown in from the US to the Caribbean, despite the fact that food could be purchased locally. Caribbean countries that agree to negotiate as a block with foreign-owned hotels could impose local content requirements as a condition for foreign direct investment in the region.

China, a country with a good deal more bargaining power than the small Caribbean countries, uses its bargaining power to shape foreign direct investment to promote technology transfer and target spending to key areas that meets the employment and technology goals of the Chinese government (Braunstein and Epstein 2002). WTO restrictions place limitations on country-level collective bargaining, but in this era in which neoliberal policies have failed, it becomes clear that it is time to challenge the WTO framework.

Equality-led growth also requires a reformed central bank, geared to employment creation rather than inflation targeting. Most inflation in developing countries is due to supply-side bottlenecks – poor infrastructure, inadequate policies to smooth agricultural prices, insufficient investment into the agricultural sector, and a population that is poor and in ill health. Those problems, which can raise costs of production and thus contribute to inflation, are best remedied by the judicious use of fiscal, not monetary policy.

The report is notably silent on how to address within country inequalities, and in particular intergroup inequality along the lines of gender and race. Racial and gender equality must be addressed explicitly. Traditional macroeconomic policy can help to some extent by ensuring full employment. This will help since women and ethnic minorities (in the sense of power, not numbers) are frequently shoved to the back of the job queue, thus putting downward pressure on their wages, and reinforce negative gender and racial stereotypes. Gender and racial equality will be helped by moving the economy up the ladder to the production of higher value-added good so that those lower on the social hierarchy are not saddled with the bad jobs, reinforcing unequal norms and stereotypes.

In the end, there are no one-size-fits-all policies to achieve the goal of intergroup equality, since the pathways by which inequality is reproduced differ between countries. Broadly speaking, however, affirmative action policies to address the problem of job segregation, as well as state-level policies to
redistribute the care burden more equitably from women to men and the state are required.

Finally, attention must be paid to mechanisms that will finance development. The Stiglitz Commission report underscores the importance of capital controls as a way to stabilize national and the global economy. Mechanisms to slow financial capital mobility can be constructed so as to serve as a pollution tax, thus inhibiting destabilizing mobility and at the same time generating a pool of resources to be used to finance a global social insurance fund. Such taxes, labeled currency transactions taxes (CTTs), or alternatively, Tobin taxes, are economically well-targeted. They are progressive (weighing more heavily on the wealthy), and tax economic behavior that has negative externalities. This follows “the polluter pays” principle in environmental economics, which requires those who create negative externalities to pay for the cost of damages. A global CCT could generate a fund to be used to provide social insurance to those groups that had no hand in creating the crisis itself, at the same time that the tax discourages agents from engaging in systemically risky behavior.

This is just one example of how to generate funds to finance development, which depends on regulation of firms and financial instruments. Once we accept the principle that regulation of unbridled firm and financial mobility is socially beneficial and systemically necessary, that is, that regulation will allow governments to ensure that businesses align their profit interests with broadly shared societal well-being, we can begin to develop a variety of mechanisms in addition to CCTs which will support this goal.

Simultaneously, activist groups and academics must begin to elaborate participatory methods for ensuring the equitable use of such funds. For example, feminist activists are well-positioned to define how a social insurance fund might be used to promote gender equality. This would require precise proposals on how to use such funds. To successfully engage in the debate, activists and academics must begin developing proposals now. With these in hand, representatives acting on behalf of gender and racial equality can insist on a seat at the decision-making table, shaping a more equitable future.
Figure 1. A schematic of the effects of the growth of inequality and financialization

- Corporate mobility and trade liberalization
- Global commodity chains
- Wage "squeeze"
- Dampened aggregate demand
- Firm profits funneled to financial sector instead of expanding output
- Growth slowdown
- Unsustainable household borrowing
- Regulatory capture
  - Deregulation
  - Inflation targeting
  - K acct liberalization
- Bubble $ funneled to poor households
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ENDNOTES

1. A financial asset is considered toxic if its value has fallen significantly, so that there is no resale market since the asset cannot be sold at a price satisfactory to the holder. The fall in the value of the asset in the case of the financial crisis may be triggered by the sharp decline in the collateral backing of the underlying mortgage loans.

2. Igan, Mishra and Tressel (2000) provide evidence that lobbying lenders also engaged in riskier lending in the run-up to the 2008 crisis.

3. Decent work, according to the ILO, is work that is productive and secure; that takes place in the context of labor rights and the right to collectively bargain and participate; that provides a living wage; and that offers social protection and social security.

4. Under WTO rules, countries may seek a temporary waiver, permitting increases in import tariffs in the case of balance of payments disruptions. It should be noted this is only a temporary tool, and thus cannot be used for long-term infant industry protection to nurture domestic industries to compete on international markets.

5. Some might argue that rather than the pursuit growth, redistribution of existing income and wealth is sufficient to ensure broadly shared well-being. While this might be the case, the political limits of redistribution without growth are clear. Economic elites are more likely to resist efforts to reduce their absolute level of income and wealth than they are to oppose a growth strategy that leaves them absolutely no worse off, even if relatively worse off (as the incomes and wealth of the poor rise more rapidly). Moreover, economic growth is not of necessity resource intensive. Growth in services is an example of a type of production that does not contribute so greatly to overusage of natural resources as, for example, production of materials goods might. Economic growth, which rests on investment in research to identify new sources of renewable energy is an example.

6. A large body of evidence finds that inequality results in intergenerational poverty. For a particularly expansive discussion of these issues in a cross-country context, see Wilkinson and Pickett (2009).