

Global Basic Income and its Contribution to Human Development and Fair Terms of Global Economic Co-Operation: A Political-Economic Outlook

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Comments welcome*

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One thing is clear: the present state of the global economy is wanting. Taking the enormous increase of economic productivity into account, one should expect that humankind was living close to economic paradise. In fact, we are a far cry from it. There is far too much poverty in the world and even rich countries face severe economic constraints. Apparently, economic progress does not translate readily into human development and human welfare.

There is no shortage of suggestions of how to improve human development and how to increase justice within the economic sphere. Basic income, perhaps even realised on a global level, is a serious one. The paper sets out to give a brief sketch of some of the contributions of global basic income to human development and to fair terms of global economic co-operation. It presents some major economic hurdles to human development and fair terms of global economic co-operation and examines, whether global basic income is a sufficient remedy to them or whether basic income requires the assistance of additional measures. As indicated in the headline, I assume the necessity of further political-economic institutions.

The paper assumes a fundamental *humanitarian obligation* to support human development. Furthermore, it upholds the necessity of establishing *fair terms* of economic co-operation, domestic or global. These two concerns of global justice are by no means supposed to provide an exhaustive account of global justice. They are complements to further possible principles of global justice.

The paper focuses on *global* basic income and not *national* or *regional* basic income because due to the immense international inequalities of wealth, the redistributive effect of

global basic income is assumed to be larger and thus more favourable for the purposes of human development and justice within the economic sphere. Of course, countries are free to boost the level of global basic income by additional domestic payments.

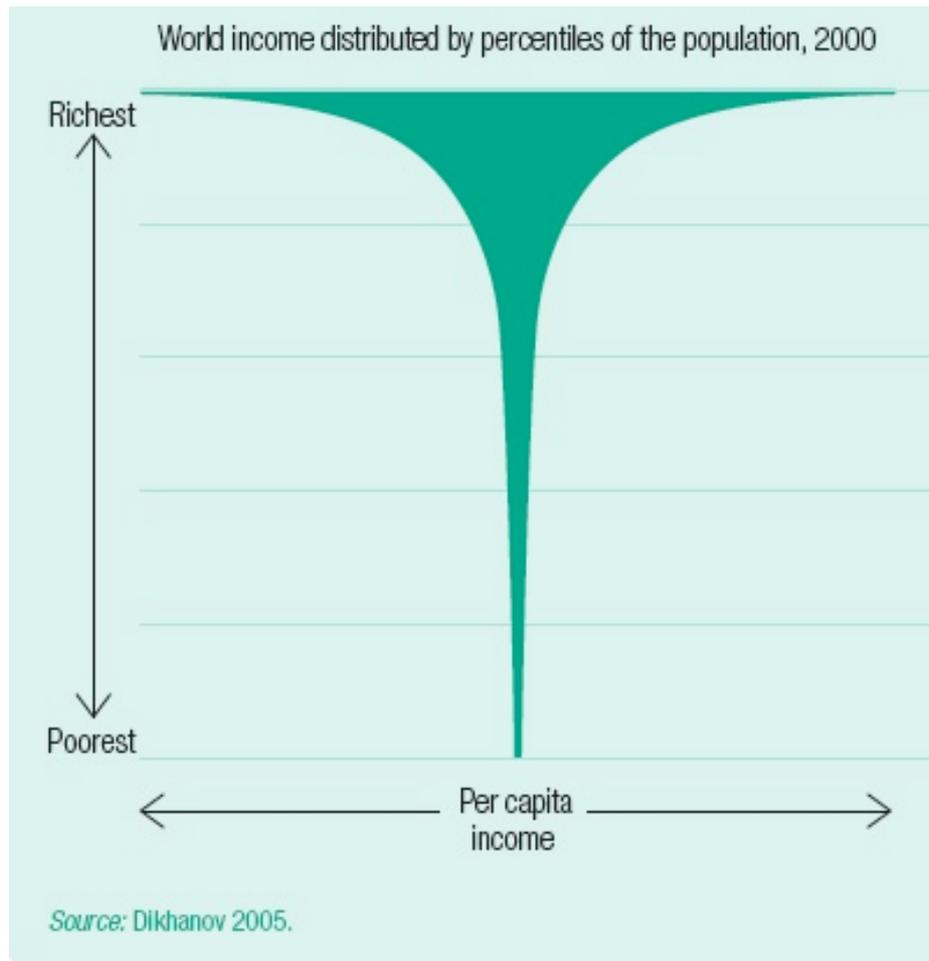
I. Is Global Basic Income a Remedy to Poverty?

It is not a particular new diagnosis that our world is plagued by mass poverty. Some well-known data are: globally, 850 million people are mal-nourished - taking into account the current food crisis the number will have certainly increased; 1 billion people are living in extreme poverty below the \$ 1 per day purchasing power parity –poverty line; another 1.5 billion below the \$ 2 purchasing power parity-poverty line, these are together 40% of world population, forming a global under class; 10 million children die each year before reaching their fifth birthday, mainly because of poverty and easily and inexpensively curable illness; 115 million children do not receive even basic primary education.¹

Global wealth and income is extremely unevenly distributed. Thus, for example, the income of the 500 richest people of the world exceeds that of the poorest 416 million people. Another datum: the ratio of income between the poorest and the richest decile is 1 to 103.² Presented in a graphic form, global income distribution resembles a champagne coupe, with a large concentration at the top and a long, thin stem at the bottom:

¹ United Nations Development Programme (ed.), *Human Development Report 2005*, Chapt. 1, <http://hdr.undp.org/en/reports/global/hdr2005/>

² *Human Development Report 2005*, p. 37, 38



Human Development Report 2005, p. 37

It appears that even small transfers from the richest to the poorest would have considerable effects on alleviating poverty. In fact, calculation based on data of the year 2000 assume that lifting everyone about the \$ 1 extreme poverty line would require \$ 300 billion – which sounds much but is equivalent to redistributing 2% of the income of the richest decile.³

A global basic income oriented at the \$ 2 poverty line would amount to a massive redistribution of purchasing power from the wealthy to the poorest, which is a good thing. Unfortunately, there is a certain setback: employing global basic income for the eradication of poverty demands greater transfers than the \$ 300 billion calculated above. I want to cite three reasons for this:

1. The \$ 300 billion just mentioned consider extreme poverty only, not the poverty line set at \$ 2 PPP.

³ *Human Development Report 2005, p. 38*

2. A global basic income would be spent to everyone – not only to the 40 % most needy and it does not take into account existing incomes as the calculation does.

3. The current food crisis raises the amount of transfers needed.

As a consequence, the required volume for a poverty eradicating global basic income will be rather high – a multiple of the \$ 300 billion. It has to be considerably higher than the current amount of official development assistance (or official aid) – which amounts to \$ 110 billion per year.⁴ That is to say, developed countries are at present not even spending half of the 0.7 percent of their gross national product – though they have agreed upon this ai benchmark.⁵

Facing the large amount, which would be required to eradicate poverty, it makes sense to look for additional measures working in concert with global basic income to end poverty and to foster human flourishing. In the following I will discuss the effect of global basic income on some major economic obstacles to human development and to justice within the economic sphere.

II. Hurdles to Human Development and to Fair Economic Co-Operation

I'll suggest a rough and ready understanding of human development, which I take to be sufficient for the purposes of this paper. Human development requires guaranteeing to everyone the indispensable conditions of a flourishing human life – it requires to provide everyone with adequate nutrition, housing, health care, education, freedom of speech, opportunities to experience friendship and joy, and so on.

The main concerns of fair terms of global co-operation considered in this paper are fair terms of trade and giving workers a fair share of the global economic product.

1. Exclusion from Trade

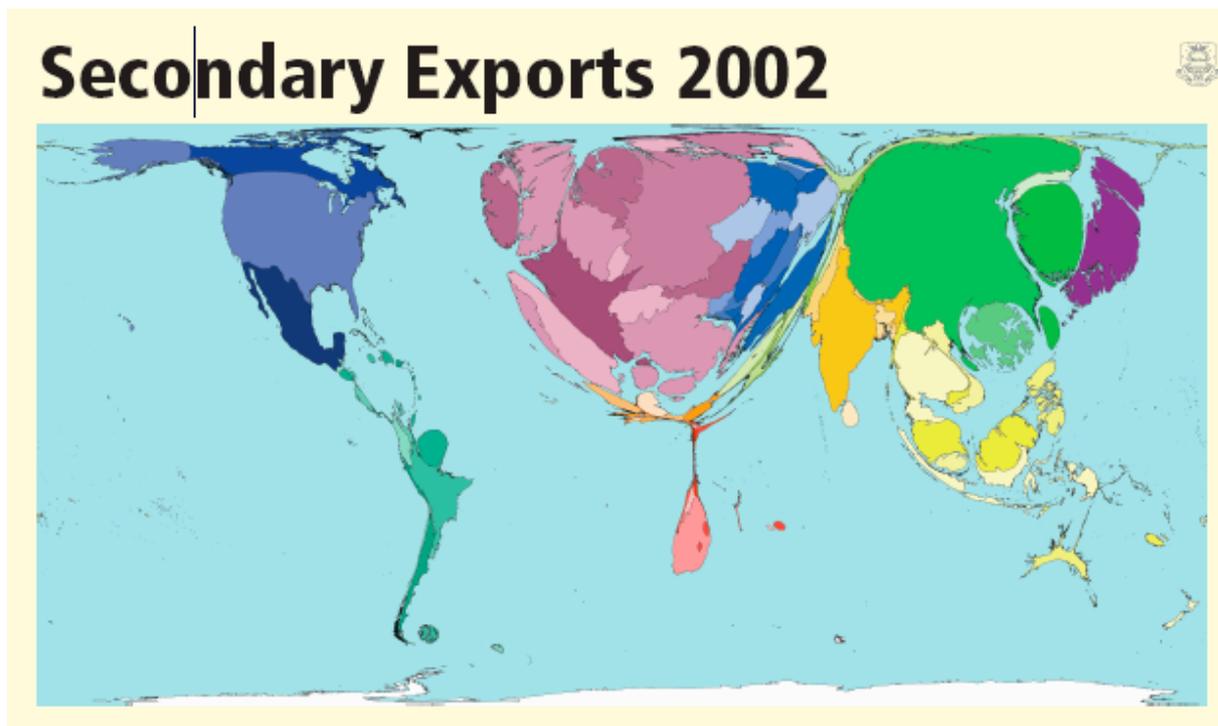
A major hurdle to human development is exclusion from trade. Today, exports account for one quarter of global income. More than 60% of world exports originates from high-income countries, and a small cluster of South Asian countries is responsible for the bulk of exports of developing countries, while Sub Saharan Africa's share, excluding South Africa, amounts to meagre 0.3%.⁶

⁴ Or, more exactly, from net official development assistance – United Nations Development Programme (ed.), *Human Development Report 2008*, p. 289, data from 2007.

⁵ Instead of comparing the transfers needed to eradicate global poverty with official development aid, one could compare it also with military spending – which is about ten times higher and which therefore would be much more effective. Facing the realities of actual politics, this, sadly, appears to be a rather utopian endeavor.

⁶ *Human Development Report 2005*, p. 117, 118

Thus: economic globalisation is a bit of a misnomer. Many regions have only a tiny share of global trade – and are therefore cut off from the benefits of trade, in particular, the benefits of the global division of labour and the transfer of technology and know-how. A useful illustration is a world map – adjusting the size of each country to its share in exports of manufactured goods (making up 71% of worldwide exports in 2002):



www.worldmapper.org

Global basic income would bring about a greater inclusion of the excluded by shoveling purchasing power into poor countries and giving the poor the power to voice their needs in the only language markets are responsive to: effective demand.

Nevertheless it should be clear that poor countries would profit even more if they were not only able to buy, but also able to sell on foreign markets - provided they could do so under fair terms of trade. In the following sections, I'll discuss some normative conditions of the access to foreign markets. My main concerns are the removal of trade barriers, keeping economic externalities in check and securing workers a fair share of the global product. That is to say, integration into the global market will be beneficial under certain conditions only.

2. Unfairness in Trade

A. Rigged Rules of Trade

Mainstream liberalist economics⁷ identifies trade barriers as the main cause of economic misery. Quotas, tariffs and subsidies hamper trade. Even worse, rich countries managed to rig the rules in their favour.

There are numerous examples for this: rich countries pay high export subsidies for agricultural products, thus ruining markets on which developing countries were otherwise competitive. What is more, there is *perverse taxation*: rich countries raise higher tariffs for poor countries than for their fellow rich countries, with peak tariffs on manufactured products – the economic section in which developing countries would profit most.⁸

It is obvious that global basic income would have no effect on the rigged rules of trade. Thus the removal of trade barriers, demanded by mainstream liberalist economists and globalisation activists, alike, is required as an additional measure.

B. Externalities or the Global Race to the Bottom

Free trade is not enough – the problem of externalization, aggravated by free trade, has to be handled. Since Adam Smith liberalist economics is keen to stress the superior efficiency of free markets. According to the liberalist view, free markets exert an imperative to innovate. Only by innovation producers were able to offer best products at best prices. Thus the imperative of markets was ‘Innovate or perish!’.⁹

A short look at the real economic world reveals a second road to market success: best prices cannot only be achieved by innovation of the product or the productive process, but also by shifting the costs of production onto others – on staff, on the environment, on consumers, or on society as a whole. There is a second imperative of free markets: ‘Externalize or perish!’.

⁷ (1) *Methodological individualism*: every economic phenomenon is viewed as being caused by the rational behaviour of economic agents.

(2) *Market efficiency*: the spontaneous self-organisation of markets is assumed to be optimal.

(3) *Scientism*: liberalist economics considers itself as a branch of social science, searching for economic laws which are considered as being analogous to the causal laws of science,

(4) *Value freeness*: liberalist economics alleges a fact-value dichotomy and considers itself as being exclusively concerned with facts.

⁸ Andrew Charlton/ Joseph Stiglitz, ‘A Development-friendly Prioritisation of Doha Round Proposals’, *World Economy*, 28, 3, pp. 293-312, March 2005; Joseph Stiglitz, ‘Social Justice and Global Trade’, *Far Eastern Economic Review*, 169, 2, pp. 18-22

⁹ Philippe Van Parijs, *Real Freedom for All. What (if anything) can justify capitalism?*, Oxford 1995, p. 189, 217.

In order to block and to buffer externalization, developed economies have set up innumerable institutions, like guidelines for workplace security, collective bargaining rights, minimum wage legislation, environmental protection acts, consumer protection, and so on.

When economic globalization is designed according to the liberalist model of free trade, the race to the bottom is triggered anew. In developing countries pittances, abysmal working conditions with high production quota, excessive unpaid overtime, verbal abuse, sexual harassment, threats to health and safety are the norm and not the exception.¹⁰

Let's examine in which respects global basic income would solve or alleviate problems of externalization and whether it could function as a substitute for externality blocking institutions.

1. Pittances: According to ILO-data, half of the global workforce, 1.2 billion workers, is unable to lift themselves and their families above the S 2 purchasing power poverty line.¹¹ One is tempted to think that global basic income would simply add up to pittances – thus pushing people above the poverty line. But this neglects the functioning of markets. If global basic income is provided on a level insufficient for making a living, the global army of unemployed has in its struggle for survival no option but undercutting each other with their wage bids, thus moving a further downward step in the global race to the bottom. It is a mistake to believe that there is a given 'objective' or 'technical' value of labour. Thus much will depend on the actual level of global basic income. It has to be sufficiently high - or there have to be suitable institutional devices blocking the wage race to the bottom.

2. Poor Working conditions: Global basic income would increase worker's bargaining power. A substantial basic income would permit workers to pose a reliable threat to quit work. Nevertheless there are remaining problems. Workers might lack sufficient information (e.g. on the long term effects of toxic substances), individual workers might not have enough individual assertiveness to push their case, ideological distortions resulting from racial or sexual discrimination might impede worker's bargaining power, and so on. In order to solve problems of information and to prevent vital issues becoming dependent on individual assertiveness and the overcoming of ideological distortions, it seems wise to press for additional institutions: legislation on workplace security, anti-discrimination acts, collective bargaining rights, and so on.

3. Externalization on the Environment: it is doubtful, whether basic income would have any considerable positive impact on environmental protection. Of course, once better

¹⁰ A recent study: Maquila Solidarity Network, *Clearing the Hurdles. Steps to Improving Wages and Working Conditions in the Global Sportswear Industry*, 2008.

¹¹ ILO, *Facts on Decent Work*, July 2006;

off, people have more opportunities to care for the environment. But it is uncertain whether they would automatically develop an interest in environmental protection. Like their fellow human beings of the northern hemisphere they might just go for the cheapest product – regardless of consequences for the environment. Since they would still face greater economic constraints, it is even more likely that they will do so. In consequence, without adequate counter-measures in place, increasing the purchasing power of the poor is likely to have negative effects. To block externalization, there have to be additional measures like environmental protection acts and a transfer of environmentally friendly technology and know-how to developing countries. A promising way to achieve these eco-friendly transfers is opening domestic markets to foreign investors on certain conditions only, namely, that they use and transfer environmentally friendly technology. Unfortunately, this strategy is currently restricted or ruled out altogether by several WTO agreements.

Apart from unwanted effects of externalities on human development, it is *economic rationality* itself, which requires blocking the road of externalisation. Prices should reflect the real costs of production. Otherwise the information given by prices is distorted, which undermines the rationality of markets. Externalisation should be blocked and competition should be kept within the field of innovation. Best prices and best quality should be gained by innovation only, not by externalising costs on the environment, on the staff or on the society as a whole. This is done by a number of externality blocking institutions, which have to be established, whenever competition has discovered a new way to externalise.

2. Unfair Shares of Global Economic Co-operation

There is an unprecedented increase of the global division of labour. Global production is increasingly organized in supply chains stretching over the whole globe. There is a *norm of symmetry* holding for the distribution of the product of global division of labour: Everyone who contributes to the global product, should receive a fair return. Giving and taking should be balanced.

It is beyond dispute that labour, which usually draws only tiny wages on markets and which, therefore, is labeled ‘unproductive’ by liberalist economics, takes also part in the global division of labour. The growing of coffee, the picking of bananas and the sewing of shirts is a necessary contribution to the functioning of the whole. It relieves others from the

same work, thereby realizing comparative advantage.¹² Therefore, coffee-grower, bananeros, and sewers have a claim to a fair slice of the global economic cake.

There are well-known economic objections to fair shares. I will touch only one of them. The technical view prevalent in liberalist economics considers prices as mirroring the productivity of labour. I'll present quickly some counterexamples to this objection. The first two examples appeal to our normative intuitions: A well-earning soccer player earns in two days more than a Pakistan soccer stitcher will earn throughout his or her whole life. A German nurse has to work ten month for drawing the same income our soccer player gets in a day. Does this mean that playing soccer is thousands of times more valuable than stitching soccer balls or that it is hundreds of times more valuable than caring for the ill? I doubt that.

There is a third example questioning the productivity-mirroring thesis: Imagine an executive in a transnational sportswear company, who decides to lower tariffs for garment. Other things remaining equal, subcontractors have two options: raising production quotas or cutting wages. Lets say they opt for higher productions quotas. As a result, the transnational sportswear corporation will draw higher revenues and our executive may even receive a bonus payment - though it has been neither the corporation, its shareholders nor the executive who got more productive, but the workers in the developing world. I take this to be a further clear counterexample against the thesis that wages reflected nothing but the productivity of labour. Apparently, wages are influenced by a number of factors, including, as in this case, inequalities of power, as well as the contingencies of supply and demand, and positional rewards.

Basic income might increase economic justice by helping workers especially in the developing world to a greater share of the global product – provided, basic income is sufficiently high and employers cannot abuse it to take a further step in the wage race to the bottom. And even if basic income adds up to wages, the resulting share might still fall short of a *fair share*. To secure to every worker a fair share for his or her contribution to the global product, support by further institutions is required.

¹² Comparative advantage is an economic concept meaning, that production is organised most efficiently if each concentrates on performing that where she is, compared to her other productive capacities, best at – even, if, compared on an absolute level, her productive capacity is lower than others. Take the example of a cleaner and an architect. Though the cleaner might be absolutely worse at cleaning and drawing, her concentration on cleaning allows the architect to devote all her labour time to drawing - thereby raising the efficiency of their co-operation.

An institutional example: Fair import policies of developed countries: When striving for fair wages and for externality-blocking institutions, developing countries would be ill advised to establish externality-blocking institutions unilaterally. They would just price themselves out of the market. This explains, why minimum wage legislation, if existing at all, is usually not very ambitious, requiring wages even below the level of domestic living wages, and it helps to explain, why minimum wage legislation is generally poorly enforced.

In contrast to developing countries, developed countries are in a favourable position: they could and should waive the gains they get from exploitative labour and environmental destruction in developing countries. Instead, they should turn to fair import policies by insisting on minimal standards of remuneration, labour law, collective bargaining rights, and environmental protection.

Needless to say fair import policies should not pervert into new protectionism. Thus the policies should be set up in co-operation with NGOs, domestic unions, and the ILO.

III. Unemployment

Apart from huge inequalities of wealth, there is another striking global imbalance: it is the economic imbalance between poverty and unemployment. On the one side, there are pressing needs of the global poor. On the other side, there is a global army of un- and underemployed. Apparently, our economic institutions are unable to bring both sides together – and to employ idle labour to the benefit of the global poor. This situation is economically insane.

Let's examine, whether basic income a remedy for unemployment. Primarily, global basic income primarily shifts purchasing power from the rich to the poor (to which extent will depend on the mode of financing). Since employment is depending on nothing else but on economic demand, there appears to be no increase of demand – just a shift from rich to poor. Nevertheless there seem to be three ways in which the shift of affects employment:

1. The shift of demand causes a shift of employment into economically marginalised areas – at the expense of other areas.

2. On average, the poor have a higher propensity to consume. They are spending more and saving less of their income, which means, a greater portion of their income is transformed into effective demand. Thus a shift of purchasing power from rich to poor is generally accompanied by an increase of demand.

3. To the extent that the shift of demand goes along with a shift to low wage products, there is an increase of employment. For the same amount of effective demand, more people are employed.

To sum up, the impact of global basic income is likely to have a moderate positive impact on unemployment. Global basic income alleviates the economically insane situation, where idle labour resources are not used for the eradication of poverty. As it well known, unemployment has been one of the major concerns of Keynes' economic analysis: he has been tirelessly stressing a structural tendency of economies to unemployment. Eradicating global poverty may well demand to have an eye on alternative and perhaps Keynesian economic theories.¹³

Conclusion

Global basic income advances human development and fair economic co-operation. But to promote human development and justice within the economic sphere fully, basic income needs to be complemented by other measures and political-economic institutions. Basic income campaigners should be aware that basic income in a free-market surrounding will not suffice to realise what they really care for. Basic income has to be realised together with a number of political-economic institutions that guarantee access to foreign markets, block externalities, and ensure fair terms of global economic co-operation. That is to say, basic income-campaigners should refrain from a black and white view of the economic sphere, where there is free market capitalism on one side and as only alternative there is centrally planned socialism on the other side. They should be aware of another version, or, to be more accurate, a family of alternatives to free market capitalism: social democratic economic regimes. Social democratic economic regimes aim to tame markets by well-designed economic institutions and care for welfare-promoting and fair political-economic institutions.

¹³ A stimulating alternative economic theory is outlined by Claus-Peter Pfeffer, *Plutopia. Policies for Sustainable Global Wealth*, 2006, <http://www.scribd.com/doc/27972/Plutopia>