

Global Finance and Global Justice

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Abstract

Global financial structures and practices frequently have a profound impact on individuals' life opportunities. They are thus important objects of normative political inquiry. Still, the literature on global justice has (to date) had little to say about global finance. I seek to remedy this by more fully articulating the requirements of justice in the context of financial globalization. This paper's argument is structured as follows. First, I argue that global finance is part of a global basic structure; as such, we require a theory of justice that takes account of globalised finance. I then begin the task of developing an account of the requirements of justice with respect to the key practices constituting the global financial system in considering balance of payments adjustment.

Résumé

Les structures et pratiques financières globales ont fréquemment un impact profond sur les circonstances de vie individuelles. Elles sont ainsi les objets importants de l'enquête politique normative. La littérature sur la justice globale a malgré peu à dire au sujet des finances globales. J'essaie de remédier cette situation en articulant plus entièrement ce que la justice dans le contexte de la mondialisation financière exige. L'article est structuré comme suit. En premier, je soutiens que les finances globales font partie d'une structure de base globale ; en tant que tels, nous avons besoin d'une théorie de la justice qui tient compte des finances globales. Je commence le projet de développer une explication des exigences de la justice en ce qui concerne les pratiques principales constituant le système financier global en considérant l'ajustement de la balance des paiements.

For sometimes, as men's manners are, justice cannot be had without money....
(Hobbes 1651/1994: 154).

The basic facts are widely known: monetary and financial disturbances have serious consequences for individuals' welfare and basic rights. One could look back to the economic dislocation and social unrest wrought by the German hyperinflation of 1922–1924 and the Hungarian hyperinflation of 1945–1946 to make this point (Fergusson 1975; Hughes 1988; Siklos 1991). For more recent cases, one could point to scholarship demonstrating that international financial institution-mandated structural adjustment programmes have in many instances detracted from the enjoyment of basic human rights (Aslanbeigui and Summerfield 2000; Franklin 1997; Thomas 1998). In short, financial crises cause real harm to people. The late Susan Strange said as much in the opening of her last monograph, *Mad Money*, where she wrote: "We recognise insanity, or madness in a man or a woman, by erratic, unpredictable, irrational behaviour that is potentially damaging to the sufferers themselves or to others. But that is exactly how financial markets have behaved in recent years." Indeed, the financial markets' "behaviour has very seriously damaged others" (1998: 1). Finance, therefore, particularly *global* finance, can (and often *does*) have a profound impact on individuals' life opportunities. Global finance is therefore an important object of normative political inquiry.

Still, there continues to be a dearth of such normative inquiry at the intersection of the political economy of global finance and normative international relations theory/international ethics literatures. To be sure, there is growing evidence of "a new preoccupation in the world of international finance – a desire to engage the ethical implications of globalisation" (Best 2003: 579). As well, there is recognition that an "account of how monetary arrangements should be structured is indispensable to establishing the

requirements of international distributive justice” (Reddy 2003: 81). Nevertheless, we continue to lack a theory of global financial justice. I endeavour to remedy this state of affairs in constructing an integrative theory of global finance and global justice. The first step in constructing such an integrative theory is obviously a theory of *justice*. In this regard, I take as my starting point here the liberal theory of justice advanced by John Rawls in *Theory of Justice* (1971) and subsequently revised and extended in other works, as well as the extension of Rawls’s theory to international relations by Charles Beitz in *Political Theory and International Relations* (1979). Although liberal egalitarianism constitutes my theoretical point of departure, and I accept the broad outlines of these liberal theories of (global) distributive justice, I argue that they require respecification and elaboration. My aim in this paper, therefore, is a critique, reconstruction and extension of Rawls and Beitz in light of the fact of globalised finance.

I begin by outlining in some detail relevant aspects of Rawls’s theory from *Theory of Justice* (1971) and its further development in *Political Liberalism* (1993/2005) and *Justice as Fairness* (2001). I then turn to Beitz’s extension of Rawls’s thought to international relations. I then return to Rawls and his own international thought in *Law of Peoples* (1999).¹ In advancing my subsequent criticisms of Rawls and Beitz, I argue that we must provide a better account of the role money and finance in the basic structure of society than is given by either Rawls or Beitz. Further, we must relax Rawls’s assumption of autarky. Such a reconstruction is a necessary preliminary to a theory of justice of the global financial system. I then take up one specific issue in the political economy of global finance, briefly outlining what justice requires in terms of balance of payments adjustment.²

1. I structure my argument in this fashion for two reasons. First, I wish to present as completely as possible those core ideas from Rawls’s “domestic” political theory with which I plan to engage and to demonstrate their fixity in Rawls’s body of work. Second, a portion of Rawls’s discussion in *Law of Peoples* (1999) is dedicated to responding to earlier global egalitarian arguments (by Beitz and others) which he disputes, thus requiring a presentation of Beitz’s theory before presenting Rawls’s response.

2. A complete theory of justice of the global financial system will, of course, need to address issues relating to credit and global financial governance as well. These issues are part of my ongoing research.

1. Reconstructing Rawls and Beitz

In *Theory of Justice*, Rawls's aim is to construct a theory of social justice building on the social contract tradition of political thought (represented by Hobbes, Locke, Rousseau and Kant) but taken to a higher level of abstraction. The influence of his account of social justice has been so great as to prompt his libertarian critic Robert Nozick to remark (quite presciently for the time) that "political philosophers now must work within Rawls' theory or explain why not" (1974: 183).

Rawls defines the primary subject of social justice in *Theory of Justice* as the "basic structure of society" (1971: 7). By this, Rawls means "the way in which the major social institutions distribute fundamental rights and duties and determine the division of advantages from social cooperation." Society's major social institutions are understood as "the political constitution and the principal economic and social arrangements." It is these arrangements that "define men's [sic] rights and duties and influence their life-prospects, what they can expect to be and how well they can hope to do." It is the basic structure that governs "the assignment of fundamental rights and duties and regulation of social and economic inequalities" as well as "the legitimate expectations founded on these." Thus, the basic structure "determine[s] the appropriate distribution of benefits and burdens of social life." For Rawls, then, the basic structure of society "is the primary subject of justice because its effects are so profound and present from the start." Principles of justice "apply to the basic structure and regulate how its major institutions are combined into one scheme" (Rawls 1971: 7, 54, 84, 274).

Though he concedes the vagueness of his concept of basic structure, admitting that it "is not always clear which institutions of features thereof should be included", Rawls makes clear his intention to "cover what would appear to be the main elements of this structure" in his discussion (1971: 9). Rawls further writes that he conceives of the basic structure of society as entirely self-sufficient: "I assume that the boundaries of these schemes are given by the notion of a self-contained national community"; the basic structure and inter-state relations are therefore mutually exclusive (Rawls 1971: 146, 457).

In searching for what justice requires in the basic structure of society, Rawls uses a philosophical method that draws on the social contract tradition in political thought. Rather than take a particular conception of the state of nature as the starting point for his theory (as do earlier social contract theories), Rawls begins with the idea of the “original position,” which is “understood as a purely hypothetical situation characterised so as to lead to a certain conception of justice.” Its essential features are that “the parties do not know certain kinds of facts. First of all, no one knows his [sic] place in society, his class position or social status; nor does he know his fortune in the distribution of natural assets and abilities...” Neither do the parties “know the particular circumstances of their own society. That is, they do not know its economic or political situation...” (Rawls 1971: 137). Rawls assumes that the parties to the original position do, however, “know the general facts about human society. They understand political affairs and the principles of economic theory; they know the basis of social organisation and the laws of human psychology” (Rawls 1971: 137). For Rawls, this original position “is the appropriate initial status quo which insures that the fundamental agreements reached in it are fair” (1971: 17). In this position, one is behind the “veil of ignorance.” The next step in Rawls’s scheme is to reason as self-interested persons and to choose principles of justice for society.

A crucial intermediate step in Rawls’s theory is the motivating argument for the specific conditions that constitute the original position and that lead to a particular conception of justice. Working toward an account of the initial situation and the principles of justice that follow from it is, for Rawls, an iterative process: “we work from both ends” (Rawls 1971: 20). This involves starting with a description of the initial situation “so that it represents generally shared and preferably weak conditions. We then see if these conditions are strong enough to yield a significant set of principles” (Rawls 1971: 20). Additional reasonable conditions are added to the description of the initial situation if we do not arrive at a significant set of principles. When our account of the initial situation and the principles derived therefrom do not match our considered moral intuitions, we are presented with a choice:

We can either modify the account of the initial situation or we can revise our existing judgements, for even the judgements we take provisionally as fixed points are liable to revision. By going back and forth, sometimes altering the conditions of the contractual circumstances, at others withdrawing our judgements and conforming to principle, I assume that eventually we shall find a description of the initial situation that both expresses our considered judgements duly pruned and adjusted. This state of affairs I refer to as reflective equilibrium (Rawls 1971: 20).

The end point of this iterative process, then, is what Rawls refers to as a reflective equilibrium. He notes, however, that reflective equilibrium is not stable: "It is liable to be upset by further examination of the conditions which should be imposed on the contractual situation and by particular cases which may lead us to revise our judgements" (Rawls 1971: 20–21). There are therefore "many possible interpretations of the initial situation" with the choice of a particular conception requiring that one demonstrate "that there is one interpretation of the initial situation which best expresses the conditions that are widely thought reasonable to impose on the choice of principles yet which, at the same time, leads to a conception of justice that characterises our considered judgements in reflective equilibrium" (Rawls 1971: 121). Thus Rawls leaves open the possibility that the conception of the initial situation may require additional or amended conditions (which would then lead to new principles of justice), though he regards his presentation of the initial situation as satisfactory for his purposes: "we have done what we can to render coherent and to justify our convictions of social justice. We have reached a conception of the original position" (Rawls 1971: 21).

The result of Rawls's thought experiment is a conception of justice as *fairness*. Rawls argues that two principles would be chosen in the original position. First, "[e]ach person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all." Second, "[s]ocial and economic inequalities are to be arranged so that they are both: (a) to the greatest benefit of the least advantaged, [and] (b) attached to offices and positions open to all under conditions of fair equality of opportunity." In other works, social and economic inequalities "are just if and only if they

work as part of a scheme which improves the expectations of the least advantaged members of society” (Rawls 1971: 75, 302). With specific reference to the second principle of justice – the “difference principle” – Rawls writes that it “applies, in the first approximation, to the distribution of income and wealth and the design of organisations that make use of differences in authority and responsibility...” (1971: 61). In short, from behind the veil of ignorance and therefore not knowing one’s religion, one would opt for a principle of religious toleration to govern society. Likewise, not knowing one’s social class or wealth, one would choose principles that guarantee fair (not simply formal) equality of opportunity.

Rawls thus offers a justification for the familiar set of civil and political rights but also a significant redistribution of economic resources. He further grounds his argument for redistribution using a heuristic he calls the “maximin solution to the problem of social justice.” As Rawls’s relates it, the maximin principle “tells us to rank alternatives by their worst possible outcomes: we are to adopt the alternative the worst outcome of which is superior to the worst outcomes of the others.” Behind the veil of ignorance, then, the rational decision (in the face of uncertainty over the outcome and without knowledge of the probabilities of particular outcomes) is to select the distribution of resources with the best worst outcome: the maximin rule “directs our attention to the worst that can happen under any proposed course of action, and to decide in the light of that” (Rawls 1971: 152–154). As an illustration of this principle, Rawls takes the reader through an example in which the parties behind the veil of ignorance are faced with a choice between three hypothetical situations, each with a different distribution of monetary gains and losses (Rawls’s table is reproduced in Table 1). Denied knowledge of which set of circumstances maintain, the maximin rule directs us to the third decision, as $5 > -7 > -8$. Though one stands to gain more under the first and second decisions than under the third ($14 > 12 > 8$), one also risks a loss; d_3/c_1 is therefore the best worst outcome (cf. Rawls 1971: 153–154).

Table 1: Rawls's Gain-Loss Table

Decisions	Circumstances		
	c ₁	c ₂	c ₃
d ₁	-7	8	12
d ₂	-8	7	14
d ₃	5	6	8

Rawls's subsequent work recast the argument presented in *Theory of Justice* in important respects, but in those respects most relevant here, his theoretical framework remained unchanged (most notably his description of the basic structure.)³ Rawls, for example, made several changes in the revised edition of *Theory of Justice* (originally revised in 1975 for the German translation but did not appear in English until 1999) designed to address criticisms of the original articulation of his argument, most notably those advanced by H.L.A. Hart, and to further clarify his argument. He did not, however, revise his explication of the basic structure of society (see Rawls 1999: 6–10, 47, 73–74, 242).

The same is true of *Political Liberalism* (1993/2005), which otherwise involved a significant recasting of Rawls's theory of justice as a *political* conception of justice, by which he means a conception of justice limited in the scope of its application to the basic structure, and which can form the basis of an overlapping consensus between reasonable persons affirming different comprehensive doctrines (or complete moral and philosophical systems) and which can in turn underwrite the basic principles of a constitutional democracy. Justice as fairness, then, as a political conception of justice, has a much narrower remit than the comprehensive doctrines capable of endorsing support it (cf. Rawls 1993/2005: 11–15). Despite this recasting of his argument in *Political Liberalism*, his account there of the basic structure itself is nearly identical. He writes, for example, that the "basic structure is understood as the way in which the major social institutions fit together into one system,

3. I emphasise this point here because the content Rawls assigns to the basic structure (and what he does not) is an important part of my argument below.

and how they assign fundamental rights and duties and shape the division of advantages that arise through social cooperation. Thus the political constitution, the legally recognized forms of property, and the organization of the economy, and the nature of the family, all belong to the basic structure (Rawls 1993/2005: 258).

This understanding of the basic structure is also consistent with that presented in *Justice as Fairness* (2001), a work that has the overall aim of further clarifying and correcting errors in *Theory of Justice*.⁴ In *Justice as Fairness*, Rawls similarly defines the basic structure of society as “the way in which the main political and social institutions of society fit together into one system of social cooperation, and the way they assign basic rights and duties and regulate the division of advantages that arises from social cooperation over time.” The basic structure is therefore “the background social framework within which the activities of associations and individuals take place. A just basic structure secures what we may call background justice” (Rawls 2001: 10).

Though Rawls’s project from *Theory of Justice* through *Political Liberalism* and *Justice as Fairness* is to articulate principles of justice for a self-contained society – in essence a “domestic” political theory – Charles Beitz has sought to extend Rawls’s analysis into international politics. In *Political Theory and International Relations* (1979), Beitz argues that “a strong case can be made on contractarian grounds that persons of diverse citizenship have distributive obligations to one another analogous to those of citizens of the same state.” He thus seeks to provide a philosophical grounding for the moral intuition “that it is wrong to limit the application of contractarian principles of social justice to the nation-state; instead, these principles ought to apply globally” (Beitz 1979: 128).

In making this argument, Beitz first notes that even assuming the absence of a regular pattern of interaction between societies (as Rawls does with his assumption of a closed society), the distribution of natural resources between states would still command

4. One should note that Rawls’s discussion of the basic structure in part IV of *Justice as Fairness* is unfinished: Rawls was unable to revise the manuscript because of illness (2001: xii).

the attention of justice (Beitz 1979: 137). Beitz observes that, for Rawls, the distribution of resources is analogous to the distribution of natural talents. Rawls writes of “natural endowments,” which are “neither just nor unjust; nor is it unjust that men [sic] are born into society at any particular position. These are simply natural facts. What is just or unjust is the way that institutions deal with these facts” (Rawls 1971: 102). Beitz argues that Rawls’s analogy between natural resources and natural talents is flawed: resources found in one’s environment are not part of the self in the way that one’s talents are. What is more, there is the problem of scarcity: “The appropriation of valuable resources by some will leave others comparatively, and perhaps fatally, disadvantaged. Those deprived without justification of scarce resources needed to sustain and enhance their lives might well press claims to equitable shares” (Beitz 1979: 139). Beitz’s contention is that justice as fairness – even in the hypothetical case of self-sufficient states – leads to a resource redistribution principle (1979: 141).

Beitz notes, however, that Rawls’s self-sufficiency assumption is far removed from the facts of international politics: “the world is not made up of self-sufficient states. States participate in complex international economic, political and cultural relationships that suggest the existence of a global scheme of social cooperation” (Beitz 1979: 143–144). What is more, international interdependence, understood as a global scheme of social cooperation, “produces benefits and burdens that would not exist if national economies were autarkic” (Beitz 1979: 149).⁵ Given that “social cooperation is the foundation of distributive justice,” then, Beitz argues that it is worth exploring the notion “that international economic interdependence lends support to a principle of global distributive justice similar to that which applies within domestic society” (Beitz 1979: 144).

In arguing for principles of global distributive justice, Beitz denies moral significance to national boundaries: “Since boundaries are not coextensive with the scope of social

5. Beitz does not base his argument on an empirical claim of any *particular* distribution of benefits and burdens resulting from international interdependence: “All that is required is that interdependence produce benefits and burdens; the role of a principle of distributive justice, then, would be to specify what a fair distribution of those benefits and burdens would be like” (Beitz 1979: 152).

cooperation, they do not mark the limits of social obligations.” Rawls’s conception of the original position must therefore be extended to reflect the broader scope of social cooperation, since “the parties to the original position cannot be assumed to know that they are members of a particular national society, choosing principles of justice primarily for that society” (Beitz 1979: 151). On this basis, Beitz finds “no reason to think that the content of the principles [of justice] would change as a result of enlarging the scope of the original position so that the principles would apply to the world as a whole.” So, if Rawls’s difference principle “would be chosen in the original position, it would be chosen in the global original position as well” (Beitz 1979: 151).

What form (or forms) of redistribution would be required by such a global difference principle? Beitz argues that it would likely require reductions in inter-state inequalities even though the ultimate end of such redistribution is the maximization of the position of the globally least advantaged persons (Beitz 1979: 153). Thus, the inter-state redistribution of wealth functions as a proxy for the interpersonal redistribution required by the difference principle. In recognising that states are often “more appropriately situated than individual persons to carry out whatever policies are required to implement global principles”, Beitz admits that redistribution between states is “a second-best solution” that must suffice “in the absence of a better strategy for satisfying a global difference principle” (Beitz 1979: 153).

Having made his case for global redistributive obligations in ideal theory, Beitz turns to the question of redistribution in the non-ideal world. He first argues that foreign assistance “should not be regarded as a voluntary contribution of a portion of a state’s own wealth, but rather as a transfer of wealth required to redress distributive justice” (Beitz 1979: 172–173). Beitz goes on to argue that non-ideal theory should also specifically examine international economic relations, as “the institutions and practices of international finance and trade influence the distribution of global income and wealth and can be adapted to help compensate for the unjust inequalities that arise under the institutional status quo” (Beitz 1979: 174). Though eschewing any detailed proposals, Beitz notes that potentially

desirable redistributive policies include preferential terms of trade for poor states and improved access to special drawing rights (SDRs) through the International Monetary Fund (Beitz 1979: 174–175).

While Beitz has developed an account of the requirements of global distributive justice grounded in Rawls's thought, Rawls himself has taken his international thought in a surprisingly different direction. Although Rawls concludes in *Theory of Justice* (1971) that justice entails significant redistributive obligations *within* societies, he makes the unexpected argument in *Law of Peoples* (1999) that the same type of obligations do not exist *between* societies. Rather, well-ordered societies are the subject of a duty of assistance that stops well short of the kind of redistribution that a global application of the difference principle would require. It remains to be seen how Rawls reaches this conclusion.

Rawls's aim in *Law of Peoples* (1999) is to articulate a "realistic utopian" vision of international politics – that is, "an achievable social world that combines political right and justice for all liberal and decent peoples in a Society of Peoples." The Law of Peoples, then, "is developed within political liberalism and is an extension of a liberal conception of justice for a domestic regime to a Society of Peoples." Rawls's project is thus "to work out the ideals and principles of the *foreign policy* of a reasonably just *liberal* people" (Rawls 1999: 9–10).

In working towards the principles of the Law of Peoples, Rawls again employs the idea of the original position, though the actors being modelled are not the individuals in a closed society, but the "rational representatives of liberal peoples" (Rawls 1999: 32). These free and equal representatives of liberal peoples "are subject to a veil of ignorance properly adjusted for the case at hand: they do not know, for example, the size of the territory, or the population, or the relative strength of the people whose fundamental interests they represent." Further, "they do not know the extent of their natural resources, or the level of economic development, or other such information (Rawls 1999: 32–33). This second-level

thought experiment leads Rawls to argue that the representatives of well-ordered peoples would choose the following principles to govern their relations:⁶

1. Peoples are free and independent, and their freedom and independence are to be respected by other peoples.
2. Peoples are to observe treaties and undertakings.
3. Peoples are equal and are parties to the agreements that bind them.
4. Peoples are to observe a duty of non-intervention.
5. Peoples have the right of self-defence but no right to instigate war for reasons other than self-defence.
6. Peoples are to honour human rights.
7. Peoples are to observe certain specified restrictions in the conduct of war.
8. Peoples have a duty to assist other peoples living under unfavourable conditions that prevent their having a just or decent political and social regime (Rawls 1999: 37).

One should note that Rawls's principles of the Law of Peoples do not include a principle of distributive justice analogous to the difference principle that applies domestically.⁷ Rawls does argue, however, that well-ordered societies "have the *duty* to assist burdened societies" that "lack the political and cultural traditions, the human capital and know-how, and, often, the material and technological resources needed to be well-ordered." Still, it is not the case, in Rawls's view, "that the only way, or the best way, to carry out this duty of assistance is by following a principle of distributive justice to regulate economic and social inequalities among societies" (Rawls 1999: 106). Rather, the duty of

6. Rawls notes that decent nonliberal peoples – those peoples whose basic structure Rawls describes as a "decent consultation hierarchy" – also possess "certain features making them acceptable as members in good standing in a reasonable Society of Peoples" and would choose the same principles for the Law of Peoples as reasonable liberal peoples (Rawls 1999: 5).

7. Rawls also explores a number of important issues in *Law of Peoples* (1999) such as the democratic peace, the extent to which liberal societies ought to tolerate nonliberal societies, the philosophical basis of human rights, just war and immigration that I nonetheless set aside in order to focus on his arguments relating to obligations of distributive justice (or the lack thereof). For discussions of Rawls's thought on these other issues, see, e.g., Beitz (2000); Benhabib (2004); Buchanan (2000); Kokaz (2000); Pogge (2004, 2001).

assistance requires well-ordered societies to assist burdened societies for a finite period during which burdened societies establish just basic institutions and change their political cultures, eventually joining the Society of Peoples (Rawls 1999: 106–112). Thus, the duty of assistance is “a principle of *transition*, in much the same way that the principle of real saving over time in domestic society is a principle of transition”; it is assistance “meant to lay the foundation for a just basic structure of society, at which point it may cease” (Rawls 1999: 118).

Rawls advances a set of related arguments for rejecting principles of global distributive justice. His first objection to arguments for global redistributive obligations is that they “do not have a defined goal, aim, or cut-off point, beyond which aid may cease” (Rawls 1999: 106). Rawls does admit the attractiveness of principles of global distributive justice given actual global inequalities: if such principles are “meant to apply to our world as it is with its extreme injustices, crippling poverty, and inequalities, its appeal is understandable.” Still, he sees no reason for their application “continually without end – without a target, as one might say – in the hypothetical world arrived at after the duty of assistance is fully satisfied...” (Rawls 1999: 117). He goes on to present two hypothetical cases involving two liberal or decent societies. In the first example, one chooses to industrialise (increasing its rate of real saving) while the other does not. In the second example, one society places greater stress on population control than the other, resulting, over time, in greater per capita wealth (Rawls 1999: 117–118). For Rawls, redistribution between these societies – taxing one to raise the per capita wealth of the other – is objectionable:

Given that both societies are liberal or decent, and their peoples free and responsible, and able to make their own decisions, the duty of assistance does not require taxes from the first, now wealthier society, while the global egalitarian principle without target would. Again, this latter position seems unacceptable (Rawls 1999: 118).

Thus, for Rawls, “there is a point at which a people’s basic needs (estimated in primary goods) are fulfilled and a people can stand on its own” – and beyond which no redistribution between societies is justified (1999: 118).⁸

Having outlined both Rawls’s and Beitz’s theoretical frameworks, it is clear that neither addresses the topic of money and finance directly or in detail (which is not in itself a substantive criticism). The more important issue is this: do their international political theories nevertheless provide a basis for a theory of global financial justice? My answer is a heavily qualified one. Though the broad architecture of their theories may be taken as sound, they cannot be extended in a straightforward fashion to global finance. Key aspects require respecification and elaboration. First, the conceptions of the basic structure of society offered by Rawls and Beitz are underdeveloped in that they neglect the crucial role played by money and finance in distributing benefits and burdens in modern societies. Second, Rawls’s autarky assumption (as I shall refer to it) is indefensible even as a simplifying assumption. Third, Rawls’s “duty of assistance” is inadequate under conditions of globalised finance. As I shall demonstrate, acknowledging the role played by money and finance in the basic structure and relaxing the autarky assumption lead necessarily to principles of global distributive justice that pertain specifically to financial practices.

Monetary and financial practices have long been recognised as having import to the subject of justice. Aristotle (1981) was the first to point us to the centrality of exchange in the creation of community, and the critical importance of money in facilitating exchange. Hume (1777/1889), Smith (1776/1976; 1766/1987) and Keynes (1941; 1923) alert us to the profound

8. A corollary reason Rawls gives for endorsing the duty of assistance and rejecting principles of global distributive justice is that economic development is a function of domestic political culture and a matter of political choice. Rawls makes the assumption that the causes of economic growth of a society are found in “their political culture and in the religious, philosophical, and moral traditions that support the basic structure of their political and social institutions, as well as in the industriousness and cooperative talents of its members, all supported by their political virtues” (Rawls 1999: 108). As a result, “the arbitrariness of the distribution of natural resources causes no difficulty” for Rawls (1999: 117). I will not discuss this reason for rejecting principles of global distributive justice; instead, I focus my discussion on Rawls’s “duty of assistance,” although I, like Buchanan (2000) and others, find Rawls’s contention that economic development is strictly endogenous highly implausible.

effects on individual life opportunities exerted by the management of the money supply, interest rates, exchange rates and adjustments in price levels. These practices are, in effect, part of the *basic structure* of a modern society according to Rawls's own definition: they are part of the "principal economic and social arrangements" (Rawls 1971: 7). This assertion is supported by Reddy (2003: 81): "The existence of money and credit is an integral and probably unavoidable part of modern societies."

Still, neither Rawls nor Beitz provide an adequate account of money and finance as part of the basic structure. Writing in abstract terms, Rawls does discuss income and wealth as two of the primary social goods that the basic structure functions to distribute (1971: 62). However, he goes on to refer to the "*stock of benefits*" and "*collection of goods*" to be divided (Rawls 1971: 88; emphasis added). Rawls's defence of the difference principle frames the question of social justice in terms of its application in allocating money and other resources (Rawls 1971: 150-161). He does not extend his discussion to consider the application of the difference principle to the economic processes that *themselves* function to allocate and redistribute money; Keynes's discussion of the distributive effects of inflation and deflation in his *Tract on Monetary Reform* (1923) ought to be recalled here. This is to say that Rawls's concern is with the distribution of the products of economic processes, not the distributive effects of the full range of economic processes themselves – financial *flows* included. This neglect of money and finance is evident in his conception of an economic system.⁹ He writes that an economic system "regulates what things are produced and by what means, who receives them and in return for which contributions, and how large a fraction of social resources is devoted to saving and to the provision of public goods" (Rawls 1971: 266). Money and credit, therefore, appear to have little place in Rawls's ideal of an economic system. What is missing from the above description of an economic system is how financial capital (i.e., credit) enables production, to whom credit is made available, and at what cost.

9. Trade, of course, is also left aside as a consequence of Rawls's autarky assumption.

One also sees this neglect in Rawls's discussion of just savings. Here, Rawls treats the question of intergenerational transfers of wealth as one of capital accumulation, where capital is defined as productive (industrial) capital and human capital, and where capital accumulation is a simple function of domestic savings (Rawls 1971: 284–292). Financial capital is not part of his conception. There is also no borrowing – no *credit*.¹⁰ As well, in putting forward his understanding of the different functional branches of government, Rawls identifies a distribution branch, whose “task is to preserve an approximate justice in distributive shares by means of taxation and the necessary adjustments in the rights of property” (Rawls 1971: 277). Monetary policy, though not specifically mentioned, would appear to belong to the stabilisation branch of government, which “strives to bring about reasonably full employment...” (Rawls 1971: 276). Rawls therefore fails to acknowledge or explore the distributive effects specific to the exercise of monetary policy – namely the distributive consequences associated with the expansion and contraction of the money supply that, for example, so concerned Keynes in his *Tract* (1923).

Though Beitz recognises global finance as part of an “evolving global basic structure” (1979: 202), he does not articulate principles of justice for a globalised financial system. His central concern remains the distribution of natural resources, and he does not extend his discussion of the kinds of redistribution required by a global difference principle beyond a vague prescription for larger inter-state transfers of wealth (1979: 137–141, 153). Beitz's conception of the basic structure is therefore also incomplete, and as a consequence so is his theory of global distributive justice.

What accounts for this neglect of money and finance by Rawls and Beitz in their respective theoretical frameworks? Part of the answer is that neither Rawls nor Beitz appreciate the full range of economic practices constituting the basic structure. Neither offers an extensive motivating argument for what they choose to include as part of the basic structure and what they choose to leave out. It is important to observe as well that setting

10. Rawls makes only a passing reference to education loans (1971: 307).

aside (or ignoring) money and finance altogether is equivalent to taking the position that they do not have real effects on the economy or human welfare – an assertion that is demonstrably false. Another part is that both Rawls and Beitz treat money and finance as separate from ideal theory; it is not an issue they consider to be relevant at a level of abstraction higher than concrete policy initiatives. Beitz, for example, only makes a passing reference to SDRs and the IMF in the context of a discussion of the application of principles of global distributive justice to the non-ideal world (1979: 174–175). Rawls similarly consigns all discussion of global distributive justice to non-ideal theory (Rawls 1999: §16). Neither approach is defensible. Again, there are no motivating arguments for treating money and finance in this way – as a topic for non-ideal theory by definition. Indeed, the example of modern macroeconomic theory shows us that money and finance can be conceived in highly idealised terms. The corrective, therefore, is an approach to money and finance between the highly stylised (and some would say barren) approach of modern macroeconomics and the ethically-motivated policy work of NGOs – in Rawls’s terms “realistically utopian” approach to global financial justice (cf. Reddy 2003).

Another problematic aspect of Rawls’s theory of justice (though not Beitz’s) is the assumption of national self-sufficiency, or autarky. Again, the basic structure of society and the law of nations are, according to Rawls, mutually exclusive concepts, and only the former would be interpreted as the proper subject of justice from the original position (1971: 146). This can only be correct if the assumption of autarky, or a closed society, is indeed plausible. Rawls’s autarky assumption (as I refer to it) has been roundly criticised by Beitz and others. Beitz, writing in the 1999 afterword to his *Political Theory and International Relations*, argues that “[t]he growth of the world economy since this book was written and the elaboration of global financial and regulatory regimes only strengthen the impression of an evolving global basic structure with consequences for individual life prospects...” (1999: 202). He later adds that “[t]his world contains institutions and practices at various levels of political organisation – national, transnational, regional and global – which apply to people largely without their consent and which have the capacity to influence fundamentally the

courses of their lives” (1999: 204–205). Allen Buchanan is even more direct in his criticism of Rawls, disputing the contention that the basic structure (Rawls’s “primary subject of justice”) is strictly national, asserting that “[t]here is a global basic structure” – with the regimes for international trade and finance amongst its constitutive parts, and with undeniable distributive effects (Buchanan 2000: 705-706). For Buchanan, then, it is

unjustifiable to ignore the global basic structure in a moral theory of international law – to proceed either as if societies are economically self-sufficient and distributionally autonomous (so long as they are well-governed) or as if whatever the distributional effects the global structure has are equitable and hence not in need of being addressed by a theory of international distributive justice (Buchanan 2000: 706).

One should observe, however, that the autarky assumption is presented by Rawls as a simplifying assumption for theory-building, not as an accurate depiction of inter-state relations: it is a device to assist in the construction of theory by paring down the number of relevant concepts.¹¹ As a means towards theory-building, such assumptions are defensible. Macroeconomic theory, for example, begins with a closed national economy to understand the relationships between gross domestic product, the money supply and interest rates before international trade and international capital mobility are introduced. One should note, though, that the assumption of a closed national economy is in the end relaxed. Rawls, however, never makes the analogous move in relaxing the autarky assumption, nor does he contemplate the implications of failing to do so.

The autarky assumption also underwrites Rawls’s rejection of principles of global distributive justice in *Law of Peoples*, where he claims that the “duty of assistance” satisfies the demands of fairness. However, Rawls’s “duty of assistance” is essentially foreign aid (with aid taking the form of both foreign exchange and knowledge). It is agnostic about potentially maldistributive financial practices such as a balance of payments adjustment

11. It is worth noting that autarky also has a profoundly *illiberal* intellectual pedigree, and is suggestive of an economic nationalism that Rawls may have found unpalatable had he been inclined to interrogate this assumption further.

that places the burden of adjustment wholly on the debtor (recall Keynes's criticism of this form of price level adjustment discussed above) or a highly unequal distribution of credit. Rawls's duty of assistance would not rectify whatever inequities that might arise out of the operation of those monetary and financial practices that constitute part of the global basic structure. In effect, it is a duty of perpetual, ineffectual assistance: maldistributive monetary and financial practices would prevent us from reaching the kind of cut-off point Rawls has in mind. Rawls's "burdened societies" would consequently *remain* burdened by maldistributive global monetary arrangements.

In sum, the basic structure of any modern economy includes some arrangement of monetary and financial practices without which economic life would come to a halt. It is undeniable that they are a constitutive part of the basic structure. Since movements of financial capital across borders (implying movements in the balance of payments), global markets for credit and formal structures of global financial governance are all part of the extant global basic structure, inquiring into what justice requires of these arrangements has a place as part of ideal theory. Still, neither Rawls nor Beitz provide an answer to this question.

So, how to go about reconstructing Rawls and Beitz, then? I submit that Rawls's concept of reflective equilibrium shows the way forward. For Rawls, the process of achieving reflective equilibrium involves working iteratively between our premises and our considered convictions of justice (1971: 20). Where our convictions do not fit our premises, one or the other must be revised. Rawls himself leaves space for such revisions of the account of the initial situation and the principles of justice derived therefrom, admitting that reflective equilibrium is "not necessarily stable. It is liable to be upset by further examination of the conditions that should be imposed on the contractual situation and by particular cases which may lead us to revise our judgments" (Rawls 1971: 20-21). This is the situation we find ourselves in as a consequence of having identified a number of shortcomings in Rawls's description of the initial situation – namely the failure to account for money and finance as part of the basic structure and the assumption of autarky. The

substantive principles of justice that flow from these premises thus fail to match our considered convictions – namely that a conception of justice that is silent as to the distributive (and maldistributive) consequences of monetary and financial practices is perverse. To re-establish a reflective equilibrium, then, we must modify our account of the original position. Specifically, we must acknowledge the importance of money and finance in the basic structure, and we must relax the autarky assumption. These two amendments combine to introduce international capital mobility into our conception of the initial situation. I contend that this is a weaker and more defensible assumption than autarky in light of globalised finance.¹²

Starting from this amended initial situation leads to the following argument: Assuming that the parties to the contract are denied certain facts, including facts about the situation of their society, which in turn includes facts about their society's financial position – whether it is a creditor or debtor in the balance of payments, its level of foreign exchange reserves, its ability to obtain or create credit, or the ability of the society bear the social strains associated with inflation or deflation, etc. – the contracting parties will agree to structure international financial relations such that no society is unduly burdened by international economic flows.¹³ They will thus put in place financial structures and practices that satisfy the difference principle. More succinctly, if the choice of principles of justice is relative to the set of facts known to the parties in the original position, then permitting the parties to have knowledge of a global economy characterised by international capital

12. Still, one needs to ask whether the parties to the initial contract would in fact endorse international capital mobility in principle, or whether they would opt for some form of inconvertible currencies (implying no cross-border capital flows). I contend that the parties to the contract would endorse international capital mobility in principle: denied knowledge of the economic condition of their society (specifically their capital endowment and their capacity to accumulate capital through a strictly endogenous process), they would choose to allow cross-border flows of capital, including foreign direct investment. Thus, the question with respect to international capital mobility is not *if* but *how* – that is, how are the benefits and burdens that come with international capital mobility distributed.

13. It is not pertinent to my argument whether the parties to the contract are the representatives of well-ordered societies (as in Rawls's scheme in *Law of Peoples*) or all persons (as in Beitz's): the principles of justice that would be chosen for the global financial system would be the same.

mobility will lead to a conception of justice requiring global financial structures to adhere to the difference principle.

In sum, my attempt at reconstructing Rawls and Beitz can be reduced to a series of postulates. Given that (1) monetary and financial practices constitute part of the basic structure of society, and (2) finance is globalised, it follows that (3) the basic structure is global. Given that (4) the (global) basic structure is the primary subject of justice, (5) we require principles of global financial justice.

2. A Just Balance of Payments Mechanism

In any system characterised by cross-border capital mobility, there needs to be a mechanism whereby domestic price levels adjust in response to movements in capital (i.e., balance of payments adjustment). But who adjusts? Who bears the costs of adjustment? As Strange was apt to ask, *cui bono*? This is as much a normative question as a positive one (which is how Strange and others have approached it). I take a different approach in asking what is a just balance of payments adjustment mechanism. Specifically, what balance of payments mechanism would be endorsed in the (modified) original position?

Answering this question requires a short review of basic open-economy macroeconomics. Balance of payments accounting, like all accounting, involves a system of double entries: a credit (or debit) in the balance of payments entails a corresponding debit (or credit) elsewhere.¹⁴ In other words, the balance of payments always (by definition) balances. The conventional basic balance of payments identity is given as $BP = CA + KA + R = 0$, where CA is the current account, KA is the capital account, and R is reserves. Thus, a deficit in one account must be offset by a surplus in the other account or by a decrease in reserves, since $CA + KA = -R$ (the domestic currency must be purchased from abroad using

14. My treatment of the balance of payments here is a general one. It is conventional in international economics to disaggregate the elements of the balance of payments further than I do here, though doing so would only serve to obscure the theoretical claims I want to advance. For a more detailed and technical treatment (including a discussion of alternative approaches to the balance of payments), see Pilbeam (2006).

foreign exchange reserves). A current account deficit must be offset either by a capital account surplus or a fall in reserves. Conversely, a capital account deficit must be offset either by a current account surplus or fall in reserves. The identity of the current account is $CA = X - M + U$, where X is exports of goods and services, M is imports of goods and services, and U is net unilateral transfers from abroad (receipts minus payments). The capital account is given as $KA = K_{IN} + K_{OUT}$, where K_{IN} is capital inflows (or an increase in non-residents' holdings of domestic assets) and K_{OUT} is capital outflows (or a decrease in non-residents' holdings of domestic assets).

To clarify the issues at stake, consider the case of capital flight out of an economy (or more precisely, out of its currency and assets denominated in that currency): capital outflow creates a balance of payments deficit which must be offset by: (1) drawing down reserves ($\Delta R < 0$); (2) depreciating the currency, leading to a current account surplus ($\Delta X > 0$, $\Delta M < 0$); or (3) raising the domestic interest rate (by reducing the money supply) to attract foreign capital back ($\Delta K_{IN} > 0$). This is how balance of payments adjustment is conventionally depicted – as requiring downwards balance of payments adjustment by the debtor. Alternative courses of action exist, however. The creditor can: (1) increase its reserves ($\Delta R > 0$), appreciate its currency ($\Delta X < 0$, $\Delta M > 0$), or lower its domestic interest rate ($\Delta K_{OUT} > 0$). Is one mechanism preferable from the standpoint of justice?

I submit that the parties to the contract would in fact endorse a principle that creditors and debtors ought to share in the burden of balance of payments adjustment according to their societies' respective ability to inflate and deflate. As Rawls writes, "the parties in the original position are assumed to know the general facts about human society. Since this knowledge enters into the premises of their deliberations, their choice of principles is relative to these facts" (Rawls 1971: 158). Given that the reconstruction of the original position involved broadening the definition of the basic structure to include money and finance, and that the autarky assumption was relaxed, the set of facts known to individuals has changed. Permitting knowledge of a global basic structure marked by

international capital mobility thus leads to a conception of justice that requires creditors and debtors to share in the burden of balance of payments adjustment.

This principle of justice for balance of payments adjustments under conditions of international capital mobility is consistent with the maximin principle that underwrites Rawls's difference principle. This can be demonstrated by imagining a scenario similar to that presented by Rawls in which the parties to the initial contract are presented with a choice between three alternative balance of payments adjustment schemes. For this scenario to work, we should also conceive of two indices – one measuring the debtor society's ability to withstand downward movement in the price level (deflation), and the other measuring creditor society's ability to withstand upward movement in the price level (inflation).¹⁵ The first adjustment mechanism (d_1) would require the debtor to deflate in order to achieve balance of payments equilibrium (the numbers in the table below represent the distribution of costs associated with increasing or decreasing the price level to achieve balance of payments adjustment). In effect, this mechanism places all of the costs of adjustment on the debtor with no adjustment (or cost) for the creditor. This, of course, is how balance of payments adjustment actually operates at present. The second adjustment mechanism would require the creditor to inflate (d_2). Here, the situation is reversed, with no downward adjustment (or cost) to the debtor. This situation is reminiscent of international financial system of the late nineteenth century centred in London, which, as Keynes notes, "transferred the *onus* of adjustment from the debtor to the creditor position" (Keynes 1941: XXV, 21). During this period, "a flow of gold immediately translated itself, not in the first instance into a change in prices and wages, but into a change in the volume of foreign investment by the creditors...." This in turn "caused the burden to be carried by the stronger shoulders" (Keynes 1941: XXV, 30). The third adjustment mechanism would require both

15. My argument here does not hinge on the specifics of how such indices are made operational, though we can imagine that indicators such as official reserves, aggregate level of economic and social development and the availability of social welfare services might be included. What matters is that the ability to measure a society's ability to deflate (or conversely inflate) in fact be measurable in some fashion.

creditor and debtor to share in the costs of adjustment (d_3), this being reminiscent of Keynes’s proposal at Bretton Woods for an International Clearing Union that would “require the chief initiative [for balance of payment adjustment] from the creditor countries, whilst maintaining enough discipline in the debtor countries to prevent them from exploiting the new ease allowed them in living profligately beyond their means” (Keynes 1941: XXV, 30). So which mechanism would parties to the agreement choose? Denied knowledge of their respective circumstance – whether creditor (c_1) or debtor (c_2) in the balance of payments – the parties to the initial contract would choose the third adjustment mechanism (d_3), as this decision represents the maximin solution under the conditions described by the (amended) original position: it reflects the best worst outcome. This hypothetical scenario is summarised in Table 2 (cf. Rawls 1971: 153).

Table 2: Balance of Payments Adjustment Mechanisms

Decisions	Circumstances	
	Creditor (c_1)	Debtor (c_2)
Debtor deflates (d_1)	0	100
Creditor inflates (d_2)	100	0
Both debtor and creditor adjust (d_3)	50	50

One should note that the difference principle does not require the creditor and debtor to share the absolute costs of balance of payments adjustment perfectly equally. Rather, it requires that they contribute to adjustment according to their respective abilities to do so. This means that the proportion of the costs of adjustment borne by the creditor or debtor would be contingent upon the particular circumstances of the two societies – i.e., how they scored on the societal-costs-of-deflation and societal-costs-of-inflation indices. We can therefore conceive of situations where the creditor makes the largest adjustment, where the debtor makes the largest adjustment, and where the creditor and debtor adjust equally. These different scenarios are depicted in Figures 1, 2 and 3, respectively.

Fig. 1: Balance of payments adjustment where the creditor makes the largest adjustment ($ABO > BCO$)

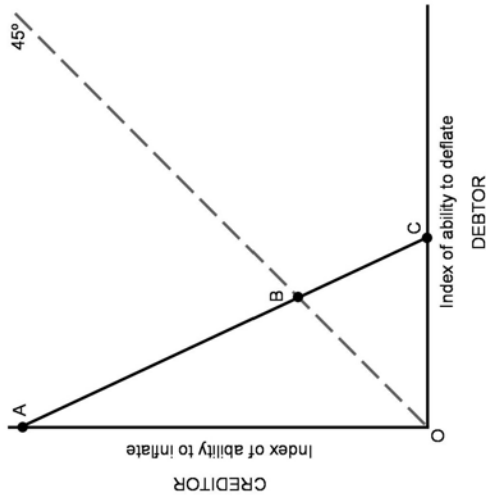


Fig. 2: Balance of payments adjustment where the debtor makes the largest adjustment ($ABO < BCO$)

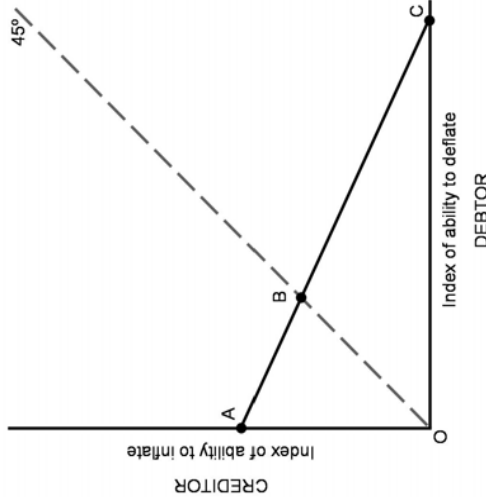
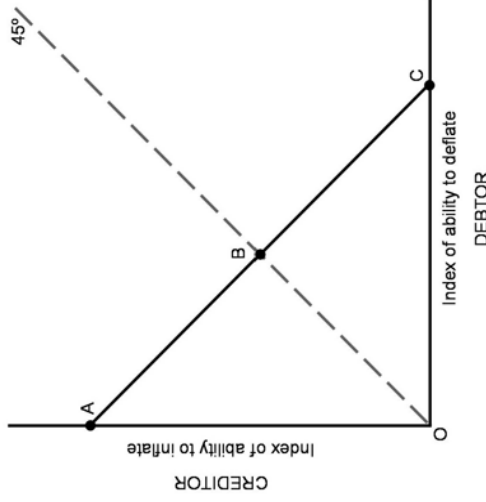


Fig. 3: Balance of payments adjustment where the creditor and debtor adjust equally ($ABO = BCO$)



To conclude, this paper has endeavoured to construct an integrative theory of global finance and global justice within a liberal egalitarian framework. A significant part of the paper has been dedicated to theoretical ground-clearing, constructing such a theory has entailed a significant respecification and extension of the international political theories of John Rawls and Charles Beitz. Specifically, it has expanded the content of the notion of the basic structure of society, acknowledging, first, that monetary and financial structures and practices form part of the basic structure, and second, that there is a global basic structure, and that Rawls's autarky assumption is untenable. Having established the need for principles of global financial justice, I have sketched out a just balance of payments adjustment mechanism – one that requires creditor and debtor to share in the costs of adjustment according to their respective abilities to do so. This is not, of course, meant to be a detailed and fully worked-out policy proposal, but rather an exercise – in Rawls's terms – in “realistic utopian” theorising in the context of global finance. It remains to be seen, though, what the requirements of justice are with respect to credit and global financial governance.

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