by Thomas E. Chamberlain, Ph.D.*

"The Washington Consensus reforms have exposed countries to greater risk, and the risks have been borne disproportionately by those least able to cope with them. ...[T]he exposure to risk has outmatched the ability to create institutions for coping with risk....." (Stiglitz, page 86-87 [2002])

ABSTRACT

One of the hallmarks of a distressed economy is the spread between the nation's government bond yield and the yield of comparable U.S. Treasuries It is understood that this spread can be symptomatic of an important level of economic distress in the developing nations. Many believe that this condition will be corrected (and prosperity achieved) by the prescription of privatization, open markets, and proper fiscal/monetary discipline (Washington Consensus). But could socioeconomic dysfunction have a deeper cause that will not yield to this prescription? In particular, could persistently higher expected-risk in the planning by disadvantaged people everywhere, simply as a consequence of their disadvantage, defeat confidence and discourage investment in education and business?

In addressing this possibility, instant utility theory with its deeper foundation than standard utility theory and mathematical economics is introduced. This deeper understanding is then used to produce a parametric relationship which shows that increased expected-risks due to reduced discretionary power results in diminished rates of investment, in personal and material capital. That is, the analysis reveals an essential tendency for relatively disadvantaged individuals and nations to become more disadvantaged, due to lower or secondary discretionary-power in making decisions. This finding indicates a more definitive criterion for parity in socioeconomic interrelationships—in particular, Rawls' stipulation that "...there is no injustice in the greater benefits earned by the few provided that the situation of persons not so fortunate is thereby improved" is adjusted to "...there is no injustice in the greater benefits earned by the few provided that the benefits and discretionary-power of persons not so fortunate are thereby improved." In adopting this criterion it is recognized that utility theory per se, and Pareto optimality in particular (along with utilitarianism), are insufficient due to more general or higher-level considerations

for advancing freedom and human welfare.

This new perspective recommends a different direction. In particular, instead of traveling the neoclassical course of unrestrained markets as the ideal or optimal, set a revised bearing by means of institutional initiatives where the global market is suitably adjusted or moderated at the borders to offset uneven expected risk. This would require (continuing) resource transfers from the advantaged to the disadvantaged—within nations and between nations—for the foreseeable future, as appropriate to their respective needs and cultures. It is understood, in this new guideline, that the disadvantaged will primarily lift-themselves to better social and material conditions, this being operationally necessary for both systemic and practical reasons.

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