

## Policy Paper – FRIBIS Winter School

### Global imbalances and Universal Basic Income: Thoughts on inequality and “Real Freedom for All”

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#### Why should we pay attention to international gaps in social protection?

The imbalances of the global system have been a long-lasting issue analyzed by many scholars, recently with particular attention to diverse aspects of the asymmetric relations among countries and regions. This research tradition goes back to the dependency theory that emerged between the 1950s and 1970s as a response to the modernization theory, a dominant grand theory on growth and development. While the modernization theory anticipated economic convergence of the world if underdeveloped countries followed a westernized-oriented path towards development (Rostow, 1990), the dependency theory found the core cause of underdevelopment of the periphery not within inherent features but rather in the external structure: their economic dependency on the center (Prebisch and Cabañas, 1949; Cardoso and Faletto, 1996). Wallerstein's world-system theory (1987, 2005), on the same line, highlights significant impacts of the hierarchical global structure, although his conception of the semi-periphery leaves open the possibility for underdeveloped countries to achieve economic growth. This approach has steadily developed further in recent research towards attempts to multidimensionally analyze the global imbalances issues between Global North/South (De Sousa Santos, 2009).

The international imbalances are generally explained by the way countries and regions are caught up within the global structures of production and consumption. They are relatively well reported in terms of manufacturing, international trade, and average consumption of goods and services. However, the other side of the coin – how well-being

and social protection are produced and distributed – often seems to be overlooked. The distinction between center-periphery, developed-underdeveloped, and Global North/South in this context means that they have primarily unequal resources and capabilities to provide appropriate social protection, and this is strongly conditioned by economic factors. Furthermore, this inequality leads to unequal social protection systems.

These imbalances can also be analyzed by taking into consideration how countries responded to COVID-19 in a bid to tackle the socioeconomic consequences of the pandemic and the role of cash transfers. While rich countries mostly relied on the resiliency of labor markets and social security systems' responses to provide a safety net, when combined with direct cash transfer measures, in the case of Latin America, for example, public responses were focused on the social protection system and constrained by the previous social and economic conditions of each country and the resources available (CEPAL, 2022; Gentilini, 2022). This is the case, for example, of the Auxilio Emergencial in Brazil or the Ingreso Familiar de Emergencia in Argentina as these measures were implemented during the pandemic to provide social protection mainly to people with precarious insertion in the labor markets and vulnerable living conditions.

This clearly shows how global imbalances are directly linked to social security and social protection measures oriented to promote well-being, such as universal basic income (UBI) proposals. Taking the above-mentioned into consideration, this document argues that even UBI will not work as effectively as it should as long as these global imbalances remain as they are. In fact, this could even produce further imbalances in terms of social protection production and distribution.

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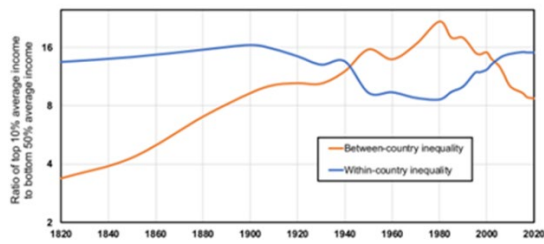
### **Dimensions of global imbalances**

Providing social protection to people in countries of the Global South, especially through cash transfers, has become increasingly important on the economic agenda in recent years. Germany's new Africa strategy reflects increasing international interest in the issue. Such policy instruments (either conditional or unconditional) aim to transfer purchasing power from the Global North to the Global South. Although cash transfers and UBI are undoubtedly distinct, with different intellectual roots (Sloman et al., 2021), both traditions ignore global structural imbalances. When considering the fact that poverty and inequality are social outcomes

caused not simply by institutional failure but also by structural imbalances, analyzing how UBI or cash transfers would work against these issues only within an internal or domestic process would be a short-sighted approach. Clearly, UBI/cash transfers should also be considered in a global structural context.

This global structural context can be described as unequal as different indicators show global imbalances. It can be measured by current account imbalances as an aggregate level but also, more specifically, by the uneven distribution of manufacturing and investment in a production aspect, or by income/purchasing power inequality in consumption. The indicator that most obviously reflects inequality would be income distribution, which has been receiving growing attention for about ten years now (Lakner and Milanovic, 2013; Piketty, 2014; Chancel and Piketty, 2021). As shown in Figure 1, "inner-country inequality" decreased after World War II until 1980, rose again until the 2008 financial crisis, and has stagnated ever since. By contrast, "intra-country inequality" increased after World War II and decreased again in the 1980s. We cannot explain this trend within the scope of this paper but we do note two dynamics. One is the dynamic of income distribution within nations, while the other (between-country inequality) is related to global trade, finance, and production. Even when the inequality between countries is reduced, the gap remains significant. In this context, the rise of China and the Association of Southeast Asian Nations (ASEAN) countries cannot hide the fact that global value added is still distributed among only a few countries and regions of the world. The data on gross domestic production (GDP) as a percentage of the world GDP can give us a first impression of this unequal system. According to the International Monetary Fund (IMF), Sub-Saharan Africa contributed only 3.3% here in 2020 and on the African continent just 5%. Particularly unimpressive is the development of South America, which generated 8.1% of GDP in 1980, with only 4.7% in 2020. Another indicator useful to measure global imbalances is manufacturing value added (MVA).

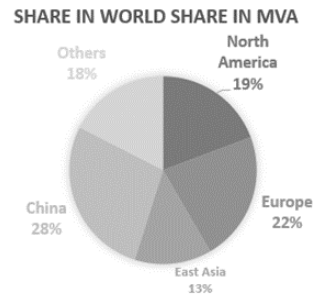
Figure 1. Inequality between and within countries



Source: Chancel and Piketty (2021)

Figure 2 shows United Nations Industrial Development Organization (UNIDO) data corresponding to the 2015 unequal MVA shared between regions. Value added takes place mainly in three regions: North America, Europe, and East Asia. The category “others” is composed of Africa, Latin America, and the Caribbean, with 1.7% and 5% respectively. As we can see, the global distribution of manufacturing is very unequal. It is a statistical fact that countries with large manufacturing sectors are mostly surplus countries, so it is no surprise that our world economy is characterized by large and persistent current account imbalances and that emerging markets belong to countries with systematic deficits. Long-term deficits, especially in Global South countries, often lead to indebtedness followed by IMF interventions. Furthermore, the Davos Agenda 2022 draws attention to the importance of the manufacturing sector and its role against inequality and insecurity. In particular, deindustrialization within the U.S. has led to widespread tension within the U.S. population. Deindustrialization damages the ability to finance social protection. Therefore, changes in the international division of labor must be taken into account when designing and implementing social protection strategies. This is one structural problem that cannot be ignored when designing cash transfer programs in the Global South.

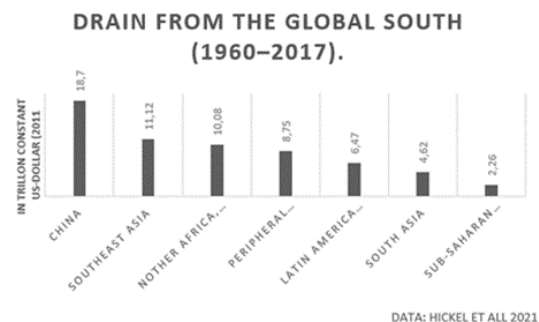
Figure 2. Manufacturing value added (MVA)



Source: UNIDO (2022)

Finally, the free movement of capital should be at least briefly considered since the financial system is the other side of the coin. Global South countries suffer from the consequences of terms of trade, carry trades, and (illegal) tax avoidance. For example, \$88.6 billion, or 3.7% of Africa’s GDP leaves Africa as illicit capital flight (UNCTAD, 2020), and there is evidence of unequal exchange (Köhler, 1998; Hickel et al., 2021). This unequal exchange occurs because prices are systematically lower in the South than in the Global North. However, as shown in Figure 3, Hickel et al. (2021) emphasize that the price differential cannot be explained by differences in productivity or quality measures. What happens is a "hidden transfer of value" from the South to the North. Hickel and his team have calculated \$62 trillion (constant 2011 dollars) since 1960. Although various factors restrict the scope of social policy in the Global South, the core lies in their financial limit, which however must be taken into account in its global dimension.

Figure 3. Drain from the Global South



Source: Hickel et al. (2021)

## UBI for all? On distribution and the question of sharing

All the imbalances presented above affect the real freedom of people in the Global South. Cash transfer schemes or UBI proposals, whether in a national framework or through international coordination, must therefore be examined with a view to the interaction with these imbalances. The statistics show what has to be considered: how can a cash transfer or a UBI promote well-being and social protection if the “freedom of all” carries the danger of not including “all” due to an unbalanced global system? And how can we avoid referring to an “all” that might only refer to everyone living in a country who can afford a transfer scheme?

Within the UBI debate, sometimes a case is made for a global minimum income whose aim is to end poverty on a global scale: “the idea of a Global Minimum Income is simple. In a world as rich as ours, no human being should be living in extreme poverty. The very least we should do is provide every destitute person with a claim on the world’s collective economic prosperity sufficient to escape that terrible condition” (Wells, 2019, p. 1). In general, the idea makes a case for global justice, following van Parijs’s “real freedom for all.” Real freedom for all describes “the maximization of the minimum level of real freedom” (van Parijs and Vanderborght, 2017, p. 104). It aims to ensure an increase in the level of what the worst-off receive and to create more possibilities and opportunities for them through the reduction of inequality. Therefore, real freedom for all can be understood as a concept of distributive justice, established through the instrument of a basic income (ibid., pp. 105–107). But how could this work on a global scale? While simple on paper, the financing and the logistics of a global minimum income appear to be a big hurdle. Considering the unequal distribution of income and wealth production, it hardly seems realistic for low-income countries to establish a reasonable pay-out scheme, lifting their population above the poverty line and creating a system independent of international agencies. Even assuming that state responsibility could be split between middle-income and higher-

income countries, the question of collective responsibility remains: who would be willing to pay?

Moreover, while in theory seemingly attempting to minimize the distributional gap between the Global North/South, global minimum income concepts do not address the systemic origin of global imbalances. More often than not, the approaches follow the same idea as the conditional cash transfers implemented in various Latin American countries: “Cash transfers are [...] investments that enable poor people to take control of their own development and end their own poverty” (Hanlon et al., 2010, p. 9). Through this, the historically grown systemic causes take a backseat to the treatment of the symptoms, cutting into the possible long-term effects of the cash transfer programs. This shows, for example, in the following simple set-up that while education rates rise through the implementation of cash transfer programs, without the structural establishment of job opportunities, the change runs into empty space as there are no jobs for the now better-educated poor. To effectively create the long-term betterment and reduction of poverty that global minimum income aims at, systemic imbalances need to be considered and addressed.

Taking a foray into postcolonial ideas and policies, what Ferguson (2015) describes as “new politics of distribution” in the case of South Africa, has some valuable points. Looking into the question of ownership and the sharing of national wealth, his analysis of the rise of South African welfare programs argues for the need for a change in perspective, making a call for what he describes as politics of “the rightful share” (ibid., p. 168). Starting from the point that their current social programs and ideas (including a UBI) are limited in their political possibilities as they are based on ‘classical Western’ ideas of redistribution, emerging from and not disassociating (enough) with the idea of the ‘able-bodied worker’, Ferguson argues for a model based on the thought of sharing instead of gifting or help, eschewing the discourse on dependency in favor of strengthening the idea of the commons (ibid.,

pp. 182–183). But how does this call for a different base for distribution fit in with the case of global imbalances and “real freedom for all”? The idea of “the rightful share” has one important thing in common with “real freedom for all” as it debates the problem of structural imbalances and exclusion of people falling through the net, because they cannot extract themselves from the global system. The question of who is included in the notion of “all” is often not addressed within UBI proposals and is called upon in the idea of “the rightful share” through the lens of a postcolonial systemic critique. It falls into the category of what Johan Galtung calls structural violence: “the violence is built into the structure and shows up as unequal power and consequently as unequal life chances” (1969, p. 171).

Considering all said above, the question remains: how can inequality be addressed through a cash transfer or a UBI without widening the gap between and within countries? When discussing structural issues within the system of global imbalances, it seems mainly important to tackle the question of inclusion from different points of view and re-orient approaching UBI policies from a more global perspective.

### **Conclusion and policy recommendations**

By definition, UBI is an unconditional, regular cash transfer granted to individuals, and entails great potential as a policy tool for building social protection and providing “real freedom for all” (van Parijs and Vanderborght, 2017). Theoretically, UBI would undoubtedly alleviate the poverty and inequality gap between the rich and the poor within a given country. However, it would be naive to believe that this normative justification/theoretical hypothesis would be empirically verified when considering a strong theoretical assumption that the ideal version of UBI is achievable in each country considered.

In practice, the relative effects of UBI on domestic inequality could significantly differ for each country, depending on their specific design and implementation contexts. For this reason, policy-makers often focus on how to effectively design UBI proposals in terms of universality,

conditionality, and generosity, but only “within the given conditions.” This means that financial feasibility tends to be a strong independent variable that determines how close their proposal could be to the ideal version of UBI. This is particularly important when considering the fact that implementing UBI inevitably requires an incremental process, given that the supply side of its development – the increase in financial feasibility – is critical for each country to pursue UBI in the long term.

Unfortunately, countries have different levels of resources and capabilities, which to some extent depend on their domestic policies but should be understood as the result of colonial backgrounds and global trends that continue shaping current structural imbalances between the Global North/South. These imbalances have even been characterized by newly-added value transferred from the Global South to the Global North through a systematic interaction of production and consumption mechanism, as shown by the statistics above. These global imbalances make a significant difference between Global South/North, not only in terms of feasible schemes for UBI but also in relation to possible outcomes of further imbalances and inequalities in social protection levels, an element that has been mostly neglected in UBI studies.

With these structural global imbalances, two possible scenarios could be postulated by the implementation of UBI. Firstly, let’s assume that UBI is separately designed and implemented by each country. Considering current unequal economic conditions, it is quite plausible that affordable UBI schemes for the Global South will be inferior to those for the Global North, particularly in terms of conditionality, coverage, and amount. This means that they stand at very different starting points on the same long journey of implementing UBI. Surely, the insufficient capability of the Global South could be directly supported by intentional global value transfers from the Global North, which have been going on through the international foreign aid system. However, their impact will be marginal in reducing this gap in the long term since the value inflow has

offset the outflow under the structural imbalances of the global system. In order to avoid this unequal starting point, in a second scenario, UBI could be discussed and implemented at a supranational level, such as building global citizenship through UBI or a global social protection fund (Grimalda et al., 2020; Grimalda, 2022). However, even though the feasibility gap for UBI itself would disappear in this second scenario, given that the capability gap in providing social protection could remain the same unless the origin of global structural imbalances – the unequal distribution of global value, particularly through the mechanism of wealth production – is addressed. In either case, the aforementioned inequality gap between the Global North/South would tend to widen.

This does not mean that UBI is useless or undesirable. It should still be considered an effective tool to directly deliver social protection to the bottom levels of society as it has the potential to redistribute the capabilities not only of consumption but also of production. In the case of the Global South, however, this may be an unreachable dream on its own, which calls for UBI to be comprehensively and cooperatively discussed, also from a global perspective. This inseparable relationship between international and domestic inequality draws attention to important normative and practical questions in relation to the role of UBI in the global economic system. If the current imbalanced global structure systematically excludes people from the Global South from “all,” how can the powerful promise of “real freedom for all,” embedded in the idea of UBI, be normatively justifiable? Or to take it even further, if the high level of social protection, including UBI, in the Global North is based overall on its relative deprivation of those in the Global South, how can UBI be considered a fair redistribution tool at a global level? These two questions can only be answered when the dichotomous view of the relations within the international cooperation system that distinguishes contributors and donors gives way to a holistic perspective of sharing through which all contributors within the global value production

chain are included. In order to develop UBI from a global justice point of view, researchers and policy-makers, particularly those working in international cooperation and supranational institutions, should give more serious attention to the fact that UBI would work differently in each country, depending on the interactions within the respective consumption and production systems. They should keep in mind what should and could be done to make UBI work better at a global level. Because they share the same ultimate goal – equal development – there is no doubt that both domestic and international efforts to reduce inequalities, within and between respectively, could benefit from this collaborative work.

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