

Money as a positional good and global power asymmetries: Reflections on “Positional goods and asymmetric development”

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Ugo Pagano’s article presents the reader with a rich intellectual feast. It uses the positional-goods framework, which Pagano has been developing for two decades, to explore the economic challenges confronting the global South. His article first provides a succinct introduction to positional goods, and then uses this concept to analyze global economic development. The positional-goods framework is, in turn, elaborated in two stages: first, a ‘pure trade’ framework; then an augmented framework that introduces a role for the state using Commons’ notion of legal relations. The results are imaginative and provocative. Here, I will comment on both parts of Pagano’s article. Global power asymmetries may be even more profound and, at the same time, more unstable than the author has suggested – because the role of money itself in global power asymmetries is also more profound and more unstable than Pagano’s article has indicated.

A “pure trade” approach to positional goods. As the author notes, the non-disappearance of the Solow residual has given neoclassical economists new interest in the idea of spillovers. And it has led many to an optimistic view that developing nations can, by investing in education, infrastructure, and healthcare, benefit from spillovers that will permit them to fully exploit their comparative advantages in markets for

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tradables. Global development is then symmetric – it involves moving steadily up a chain.¹

Professor Pagano argues to the contrary that “asymmetric” development, wherein one sphere’s enrichment entails another’s impoverishment, is more likely. He points to a flaw in the way that neoclassical theory categorizes goods – that is, it allows only private and public goods. But there is another type – positional goods, whose supply is limited because of social scarcity, and whose impact is to increase welfare for those possessing it, and to reduce welfare for those without it.

Power and status are positional goods: actions increasing power and status for some reduce them for others. Pagano focuses on power and status, which he sees as unfairly ignored in economic theory, because they determine access to wealth and to other resources, notably education: indeed, in non-capitalist societies, often the restriction of education to those already in positions of power and with status is a source of stagnation, as upward mobility is blocked. He observes that the “accumulation of wealth and human capital becomes now the way by which individuals can acquire power and status.” So the acquisition of wealth and education determines the distribution of power and status. Inherited global inequalities lead to socially-wasteful positional competitions, and also to lead to overinvestments in positional goods in rich countries, paralleled by underinvestment in poorer countries.

Some reflections on the “pure trade” case. The key idea in “pure trade” cases of positional goods is that they have a zero-sum character and lack a market. Professor Pagano uses two examples to expoit the idea of positional goods: a 3-0 lead in a soccer match; and money.

The soccer analogy works only partially: a 3-0 lead or a victory in a match is not a good (even one without a market), it’s an outcome of a series of decisions in goods markets. But there is no market for “championship win.” So there are many positional competitions in markets closely related to – though never reducible to – “championship wins.” Thus, whichever team doesn’t buy Beckham’s contract can’t put him on the field. And for those with an interest in the game, it’s zero-sum: one team’s move to secure victory reduces another’s chance. Rivals such as Real Madrid and Barcelona in futbol, or the New York Yankees and Boston

Red Sox in baseball, spend millions to achieve marginal differences in net outcomes.

The sports example brings out a crucial aspect of the positional goods that Professor Pagano highlights, that is, status and power: these are often sought via the acquisition and deployment of scarce and strategically-situated goods, which will (precisely because of their link to positional goods) command economic rents. And as the author points out, some goods are partially positional. Consider the wealth endowments with which agents start in a general equilibrium model: a set of tradable goods and capabilities which can be consistently valued using the equilibrium price vector and whatever is arbitrarily specified as “money.” In a society in which wealth is used as a criterion of a person’s importance – their status – then differential wealth already constitutes a positional good insofar as it determines relative status.

“**Money.**” Pagano doesn’t define “money”, when he writes that money is the most “pure” case of a positional good. This term requires more elaboration. There are (at least) two possible interpretations. One, just discussed, is that “money is positional” because it represents a differential distribution of wealth in a society that maps wealth into status (and possibly power). However, Pagano favors another interpretation of money, one indicated in Marx’s notion of world money: the idea of a perfectly liquid store of value. But whereas Marx saw gold as world money; Pagano means the United States dollar. Globally, elites seeking to maximize their options will, all things equal, store their wealth in the most globally liquid currency.

As with wealth itself, possessing dollars – or assets denominated in dollars – itself is not a positional good. Dollars provide liquidity, because of the near-global use of dollars as a store of value and, to a lesser extent, as a means of exchange. Possessing globally-accepted liquidity, in turn, is one accoutrement of status. But possession of a sizable amount of globally liquid assets symbolizes something else, also in short supply because of social forces – those in this position are immune from the policies of the national government of which they are members.

It is important to add an important caveat to this second idea of Professor Pagano, regarding dollars as a position good that provides glo-

bal liquidity. That is, the relative value of dollars varies due to the continual ebb and flow of prices in currency markets; those in the markets make “plays” whose duration lasts from years to micro-seconds. Much of the hyperactivity on currency markets, including self-fulfilling portfolio substitutions away from (momentarily or permanently) disfavored currencies, is socially wasteful, in my view as in Pagano’s.

But I would differentiate between the moment-to-moment suckers’ games played out daily in money markets, and the longer-term means by which the positional value of some currencies is protected. The traders can cause currencies to over-shoot, and do; but generally they work within a broader frame. And what determines that frame? There is, first of all, no asset on the face of this earth that can be guaranteed to hold its value relative to all other assets. So simply holding, say, dollars, is not a positional good superior to any other choices those with the means to choose might choose. Second, there are at the same time some monies – not just the dollar, but the Euro, and the yen, among a few others – that fluctuate less than others, that are safer.

This leads us to ask why? It is not just that currency traders have led path-dependent relative-price trajectories in certain directions. More than that, we are not in a world in which Brazil and Argentina and Bangladesh and Kenya could equally have emerged as winners in randomly-parameterized dynamic trading games. Nor are we in a world wherein those with “the” money simply hold it, rejoicing in their safety. None was more elegant than Keynes in describing the moments in which conventions collapse and uncertainty pervades every action except holding liquidity. But as Marx insisted, those who own capital – financial as much as industrial – must throw their capital back into the market flux to accumulate wealth. And when their terror fades, they return to the play.

So the “money” to which Pagano refers is a dynamic, moving thing – it underwrites private-equity funds’ purchasing plans, new credits to offshore borrowers, and payday loans to the worker trying to meet her television note and feed her family. Those investing it – or those underwriting them – are exposed to the risks of lost principle and of reduced liquidity. And expectations fall short. Housing bubbles are punctured; lending booms to Asia or Eastern Europe or Latin America end in disappointment.

There are winners and losers in this – who remembers, in the banking world alone, Manufacturers Hanovers Bank or mCorp or Seoulbank or Banamex or a thousand more? But the rules about what happens ex post, about who pays and who stays, these are not decided neutrally. The strong banks buy the weak; the lenders and companies from creditor countries gain more ability to buy assets in post-crisis debtor countries; and nation-states with borrowers who have systematically defaulted are held collectively liable, have their macropolicies turned inside out, and see their money-supply controls ripped out of their hands.

The “legal relations” approach to positional goods. And how are these biased outcomes generated? Precisely through the mechanisms that Professor Pagano identifies (in section 5 of his article), by using the grammar of positional goods to elaborate John Commons’ ideas about legal relations. This leads him to the notion of positional competition. Pagano explains how rights and liberties are positional goods – the more one has of them, the more are others’ actions constrained. Disequilibria can arise when people misunderstand their relative rights, and/or when people are assigned more rights and liberties than government can adjudicate fairly among all the sides to the disputes that arise. There is no natural way of deciding what rights and liberties should be, for any such declaration involves social obligations and compensating actions. This was precisely Commons’ point, and encompassed his insistence on seeing the construction of an economy as a kind of collective enterprise.

So those social actors who have power — in the sense of being able to affect state determinations regarding the distribution of rights and liberties and, conversely, of duties and exposures – may try to bias outcomes in markets in favor of their interests. Here again the notion of positional goods changes the way we see things. For if it simply a case of choosing between Hobbesian competition for powers and rights and a Smithian competition for private goods that do not involve positional zero-sum outcomes, it is easy to vote for Smith. This is of course the point that neoliberal economists always return to – “we are simply suggesting that a fair game in the open be substituted for one played by cronies and crooks played in the shadows of state control.”

This effort to simplify competition and to channel it into a direction that permits people to grow rich unproblematically has the virtue of sim-

plicity and the simplicity of permitting its advocates to be virtuous idealists. But now the heterodox ideas explored here lead us to bring some unpalatable offerings to the market-competition feast. For one thing, property rights in markets already involve a set of legal presuppositions. Consequently, the transaction is (as Pagano's co-thinkers Bowles and Gintis have emphasized) itself costly and complicated. And as Commons has argued, legal positions have no self-equilibrating tendencies. So either some costly enforcement will be needed or the economy requires a much larger population of agents engaging in self-policing cooperative contracts. Pagano then emphasizes that those who monopolize positional goods will manipulate state and trans-state "rules of the game" so as to permit them to extract more rents while avoiding more risks. We are very far, here, from Keynes' 70-year-old dream of a euthanasia of rentiers. Keynes would remind us here that our real-time economies will necessarily experience successions of crises and disappointments; and if the state has no ability to soften crises' blows, the first victim will be the legitimacy of the state itself – making the state all the more ripe for further distortion by well-positioned whisperers in the hallways of power. Then the self-reinforcing logic unfolds: the greater these positional monopolists' power, the more unequal the game, and the less legitimate the state.

Pagano then undertakes a brilliant analysis of intellectual property rights. His analysis contrasts the localized problem of insuring coherent legal rights with the global extension of rights. He emphasizes how owners' assertions of their rights over intellectual property involve the willingness of others to accede to these assertions. Since knowledge is inherently characterized by non-rivalry – that is, has characteristics of a public good – any protection of intellectual property rights leads to second-best outcomes and the spurious creation of economic rents. This leads directly to asymmetric global development.

“Money” and positional competition. Now we return to monetary relations, taking advantage of the fact that we have enriched Professor Pagano's category of “money,” so that it encompasses the broader set of cross-border monetary and credit relations suggested here. It becomes immediately clear, using Pagano's lens, that positional competitions over rights and protections vis-a-vis financial outcomes constitutes another

equally important characteristic of asymmetric global development. Crises are resolved on the basis of laws of economic motion that are imagined for a world in which only fairly-traded private goods and public goods exist.

Very clearly, recent crises spurred by the breakdown of cross-border monetary contracts have had the consequence of making the rich nations richer and the poor, poorer. Brazil (and other Latin American nations) has been burdened for almost a quarter century with the obligation to pay a significant share of its “primary surplus” on current account to rentiers holding debt obligations that date back to the global macroeconomic collapse of the early 1980s. Brazil has also had to pay a “risk” premium on its borrowings, in all these years of debt repayment. Mexico and Korea have been forced in the past decade to offset their insolvent banks’ bad debts with thick public subsidies, prior to selling them off to foreign owners. These are manifestations of the influence of supra-state “rules” of financial adjustment shaped by positional competitions in which these developing nations were without power.

The unfairness in this game goes even deeper. What happened to these victimized nations was, among other things, the chronic need to refinance debt, politically-influenced government procurement practices, and a breakdown in currency-markets’ confidence. Do not the first and second of these factors characterize the current situation of the United States? Indeed, the US is now more ‘indebted’ on any measure than Brazil was in either 1982 or 1999. Why, then, hasn’t the third factor – flight from the dollar – taken place? Among many factors, we might mention that global liquidity wears a national face. In this way, even when its political hegemony is slipping rapidly away, the value of the American dollar appears to be an eternal constant.²

In sum, positional competition over state (or supra-state) authorities’ rules regarding cross-border financial transactions – and regarding adjustments after financial bubble/crisis events – is resolved in favor of those who already possess positional goods (status, global liquidity, power).

This widens further the global divide in wealth and increasing the premium on global liquidity. If the global extension of intellectual prop-

erty rights leads to an overproduction of private knowledge and an underproduction of public knowledge, the global extension of financial rules leads to overprotection for those possessing positional goods, and excessive exposure for those lacking them.

Notes

The ideas presented here are heavily influenced by the author's conversations with Professor Celia Kerstenetzky on the ethical dimensions of financial globalization.

- ¹ Even taken on its own terms, this neoclassical story lacks logical consistency, for it assumes there are always more countries further down the chain. But when there are not an infinite number of countries, then this vision will be undermined by what might be called a "chain-nation paradox."
- ² Obviously, there is no such thing; just ask the British. China is sometimes regarded as the next global hegemon; and this implies that China's yuan will provide global liquidity. The heavy protections that the Chinese government provides its currency markets, and the weak state of its banking system, suggest that a global-liquidity transition involving China is not a near-term event. While a country of the "developing world," China is at the same time structurally unique. China has used the potential size and scope of its markets as a positional good to extract favorable terms and conditions for Western firms seeking to enter its markets. India, perhaps, is unique too. Some caution in contrasting the developing and developed economies – as Professor Pagano does here, and this author has also done – is certainly in order.

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