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

## **Uneven Expected Risk**

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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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