

Macroeconomic Policymaking for Reparative Justice

Matthew Robinson

The growing number and intensity of climate catastrophes have demonstrated the massive disparities in economic prosperity and the burdens of climate change. The current trajectory is unsustainable and presents an existential threat. A just transition requires public policy directed at creating a more equitable, democratic, and ecologically sustainable social provisioning process. This transition cannot be achieved through marginal, piecemeal changes. It requires coordinated, radical policy shifts. One of the first steps in achieving this just transition is to create the scaffolding of a more just and equitable society that prioritizes the needs of all, particularly the most marginalized, and ecological sustainability over extraction and profit. Reparations are a cornerstone of this new society.

All reparations projects seek justice and repair from offending parties. In the American context, the descendants of American chattel slaves seek redress from the United States government. Former colonies will receive reparations from former colonizers. Climate reparations will award states and peoples most affected by climate change with payments from nations that have contributed the most to the climate crisis. Although each of these endeavors are separate cases brought against the respective offending party, they are inextricably linked. The story of American chattel slavery cannot be told without discussing European incursions and the colonization of Africa. Extractive and exploitative colonial capitalism has contributed to the present-day climate crisis. Given the related nature of these injustices, reparative programs must

grapple with these connections and be mindful of not inadvertently producing negative externalities or obstructing the other campaigns for reparations. If injustice is in part the consequence of myopia and greed, then just policies must be part of a broader vision which prioritizes the common good.

This dramatic shift in economic policy must be led by new frameworks. The world understands what neoclassical economics and policy guided by neoclassical economists has to offer. Their frameworks and tools, at best flights in fancy and more likely carrying water for the status quo, are simply unable to conceptualize an economy which provides a dignified living standard for all.¹ If neoclassical economics does not have the capacity to describe reality in any meaningful way, then how can it be expected to guide us towards the just and sustainable world that we must build? Until states and policymaking institutions recognize the folly of trying more of the same, the necessary change cannot and will not be possible.

Policy Frameworks for Justice

What is the alternative? The pluralist, heterodox economics and the law and political economy intellectual traditions will be useful in our pursuit of a more just and sustainable world. Theory that guides our policymaking should be based on how our economy, the social provisioning process, actually works. This means situating contemporary distributions of income, wealth, resources, power, and opportunity within a historical context.² We must consider how relative personal and group positions create conflicts and divisions in societies.³ This alternative ap-

-
- 1 Lee, Frederic S. (2012). Heterodox Economics and Its Critics. *Review of Political Economy* 24(2), 337–351.
 - 2 Lee, Frederic S. (2011). Heterodox Microeconomics and the Foundation of Heterodox Macroeconomics. *MPRA Paper* 30491.
 - 3 Chelwa, Grieve; Hamilton, Darrick & Stewart, James (2022). Stratification Economics: Core Constructs and Policy Implications. *Journal of Economic Literature* 60(2), 377–399.

proach must understand the workings of institutions – our settled habits of thought, collective actions, and prescribed patterns of behavior.⁴ We must understand the embeddedness of our economy within our society, and society within our environment.⁵ Theorists and policymakers must understand the workings of state money, how it is used to reify the status quo, and how it can be used to improve human dignity.⁶ Finally, we must understand that the law is fluid and flexible, especially when elite interests are at risk.⁷ This chapter will consider two seemingly unrelated policies that come from this heterodox tradition and why they should be part of crafting reparations policies.

The following policies prioritize stability, sustainability, and justice for reparations recipients. These are aspirational. A state's relative degree of monetary sovereignty will determine its ability to fully implement these policies. International cooperation would make these policies all the more effective but is not necessary. The first, federal job guarantees, will provide stability for working people. Federal job guarantees provide dignified living-wage employment to anyone willing and able to work. This program will dedicate real resources to the just transition and quality-of-life improvements. Microprudential and macroprudential policy reforms are the second group of policies. Financial reform will stifle speculative bubbles. The job guarantee and financial reform are both macroeconomic stabilizers. Together, especially with cooperation from regional and global partners, these policies will direct our economies towards improving human dignity and away from extractive, exploitative boom and bust cycles.

-
- 4 Tauheed, Linwood F. (2013). A Critical Institutionalist Reconciliation of 'Contradictory' Institutional Institutions: What Is an Institution?. *Journal of Economic Issues* 47(1), 147–168.
 - 5 Svartzman, Romain; Dron, Dominique & Espagne, Etienne (2019). From Ecological Macroeconomics to a Theory of Endogenous Money for a Finite Planet. *Ecological Economics* 162, 108–120.
 - 6 Kelton, Stephanie (2020). *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*. First Edition. New York: Public Affairs.
 - 7 Pistor, Katharina (2019). *The Code of Capital: How the Law Creates Wealth and Inequality*. Princeton, NJ: Princeton University Press.

The Federal Job Guarantee

A federal job guarantee will provide dignified living-wage employment to any citizen willing and able to work.⁸ Private market demand for labor has never and will never provide sufficient demand for anyone who wants a job, especially at a dignified living wage. The guarantee is a permanent safety net for working people and acts as a macroeconomic stabilizer. In the private sector, labor power is employed in the service of the profit-seeking capitalist. Whether that activity has enhanced human dignity or is ecologically sustainable is coincidental. The job guarantee places those needs at its center. Every community will require its own unique version of this guarantee because every community has unique needs, but these programs should prioritize care work and the just transition. Environmental toxin remediation and climate adaptation projects can be completed through job guarantee programs.

A job guarantee will be federally funded and locally administered. States with relatively high degrees of monetary sovereignty, those that issue their own floating currency and debt denominated in that currency, will have an easier time implementing a job guarantee program.⁹ The United States is an example of a state with a relatively high degree of monetary sovereignty. States that do not issue their own currency or have high debt loads denominated in foreign currencies will have a more difficult time paying for a federal job guarantee.¹⁰

In this case, direct payments could be aimed at obtaining relatively higher degrees of monetary sovereignty. The job guarantee isn't just about income and the labor provided. It is also meant to foster greater civic participation, increase access to public goods and services, and

8 Tcherneva, Pavlina R. (2020). *The Case for a Job Guarantee*. Cambridge/Medford, MA: Polity Press.

9 Murray, Michael J. & Forstater, Mathew (eds.) (2018). *Full Employment and Social Justice: Solidarity and Sustainability*. Cham: Springer International.

10 Gadha, Maha B.; Kaboub, Fadhel; Koddenbrock, Kai; Mahmoud, Ines & Sylla, Ndongo S. (eds.) (2021). *Economic and Monetary Sovereignty in 21st Century Africa*. London: Pluto Press.

promote public health and safety. It is a way for some of society's most vulnerable, those who experience employment insecurity, to meaningfully contribute to their communities. Democratic values guide the job guarantee program because community members will be involved in directing job guarantee resources in their community.

Microprudential and Macroprudential Policy Reform

A just and sustainable economy will require the overhaul of financial regulatory policy. Reparations will involve direct payments to individuals in the American case and states or peoples for colonial and climate reparations. Individuals and peoples who receive direct payments are free to spend, save, or invest those payments as they see fit. States that receive reparations must use those payments for the public good. Direct payments will not reform the global financial infrastructure so reparations recipients will face the challenge of investing their reparations awards with institutions that financed their slavery and colonization and continue to finance the climate crisis.

Some of the transactions between financial institutions and reparations recipients will be honest, fair, and mutually beneficial. However, experience and contemporary exploitative financial relationships suggest that fraud and predation will present a problem for reparations recipients.¹¹ Explicitly criminal and seemingly legitimate financial institutions will want to make those payments their own. Further, elites within communities and states that receive direct payments will attempt to embezzle money directly and indirectly. National and international microprudential and macroprudential policy must protect reparations recipients from predatory institutions and contain systemic fragility that can arise from fraudulent activities.

11 Nguyen, Tomson H. & Pontell, Henry N. (2011). Fraud and Inequality in the Subprime Mortgage Crisis. In: Deflem, Mathieu (ed.) (2011). *Sociology of Crime, Law and Deviance*. Leeds: Emerald Group Publishing, 3–24.

Policymakers and regulators must be cognizant of the spectrum of fraudulent and predatory activities. Outright theft is abhorrent but relatively easy to detect. Most people correctly consider this criminal activity. The harm is limited to the victim and their immediate relations. Embezzlement, the misappropriation of funds from the state or a firm, is similarly recognized as criminal. Embezzlement introduces some complexity as agents of the state or large firms engage in “creative accounting” to hide stolen funds. Embezzlers conspire with counterparties to shuttle funds away from the state or firm and into accounts only accessible to the embezzler. Citizens of the state or shareholders of the firm are the direct victims of the scheme. Finally, fraud and predation present dangers to reparations recipients and may have macroeconomic implications. Perhaps the best example are the predatory lending schemes that resulted in the housing collapse and Great Financial Crisis. These actions may be considered the most harmful because they are endemic and their consequences can have international implications.¹² Because they straddle the line between criminal and permissible, the response by regulatory and law enforcement agencies can be inadequate.

Fraud and predation contribute to the financial fragility described by Hyman Minsky.¹³ As economies recover from their last downturn and investors discount the losses incurred during that period, they look for riskier bets and higher returns. This is reflected on their balance sheets. Underwriting standards are relaxed so that wider nets can be cast, and higher returns can be demanded from borrowers.¹⁴ Fraud, by definition, is not based on sound underwriting standards. One party has misrepresented or withheld material information about the transaction in an effort to convince the counterparty to agree to the given terms. Borrowers

12 Black, William K. (2005). *The Best Way to Rob a Bank Is to Own One: How Corporate Executives and Politicians Looted the S&L Industry*. First Edition. Austin: University of Texas Press.

13 Marshall, Wesley C. (2021). A Friendly Critique of Minsky’s Financial Instability Hypothesis. *International Journal of Political Economy* 50(4), 257–271.

14 Minsky, Hyman P. (2016). *Can 'It' Happen Again? Essays on Instability and Finance*. London/New York: Routledge.

who have been defrauded will pay a larger share of their income to service their debts or may not be able to pay them at all. Lenders who have been defrauded may not receive repayment of the debt and face trouble servicing their own. Both contribute to financial fragility.

Predators are the “pathogens” of fraud.¹⁵ Fraud is not an evenly distributed occurrence. Successful predators will target individuals and populations they believe will yield the highest return. Targets must have assets for them to take or the ability to acquire assets, by borrowing for example. Most importantly, those targets should not have the means to seek recourse. Predators don't want their targets to come knocking with their accountants or law enforcement in tow. Therefore, it's prudent to target individuals or populations with uneasy relationships with legal authorities or people that legal authorities would not be responsive to.¹⁶ Predation may be targeted, but its costs can be widespread and there are consequences to ignoring the social dynamics that underlie predatory behavior.

Hyman Minsky described modern capitalist economies as interlocking sets of balance sheets; one party's asset is another's liability.¹⁷ If financial bets fail, as is frequently the case when fraud is involved, the contagion of failure will grow. When systemically important financial institutions are engaged in predatory and fraudulent activities, or any of their counterparties are, these activities put the health of the financial system at risk. When the failure happens, working people from historically marginalized communities suffer the most.¹⁸

-
- 15 Black, William K. (2005). 'Control Frauds' as Financial Super-Predators: How 'Pathogens' Make Financial Markets Inefficient. *The Journal of Socio-Economics* 34(6), 45.
 - 16 Sohoni, Tracy & Rorie, Melissa (2021). The Whiteness of White-Collar Crime in the United States: Examining the Role of Race in a Culture of Elite White-Collar Offending. *Theoretical Criminology* 25(1), 66–87.
 - 17 Minsky, Hyman P. (1986). *Stabilizing an Unstable Economy*. New Haven, CT: Yale University Press.
 - 18 Holder, Michelle (2017). *African American Men and the Labor Market during the Great Recession*. New York: Palgrave Macmillan.

Micro and Macroprudential Regulation for Reparations

Microprudential and macroprudential policy reforms are difficult to coordinate on an international scale but necessary for the just and sustainable future that we hope we will have. Entrenched interests will resist these tighter regulatory policies. This can reasonably be taken as an admission of ongoing wrongdoing or anticipation of future wrongdoing. Supervision by regulators is a service provided to financial institutions.¹⁹ Auditors double check a firm's underwriting processes and provide guidance if they fall short. To be clear: strong underwriting standards are profit centers, not cost centers, for honest firms.²⁰ Supervision and audits confirm that a firm and its counterparties have engaged in honest dealings. Honest firms should want supervision that provides a second opinion and guidance. To honest dealers, audits and stress tests are useful exercises for assessing long-term risks on their balance sheets. Dishonest but seemingly legitimate financial institutions or those engaged in speculative activities that may induce a crisis will not welcome these exercises; they are opportunities for regulators and auditors to detect fraudulent or speculative positions on balance sheets. Further, the results of stress tests are publicly available and will reveal shortcomings to financial markets.

Honest executives of financial institutions should welcome these services, especially after the ratification of reparations programs. Black Americans will have US\$14 trillion to save, spend, or invest. The world's largest investment banks will want their share of colonial reparations and funds spent in the just transition. Honest dealers should be scrambling to publicly flaunt their healthy balance sheets.

Executive compensation must also be regulated. In January 2023, the Securities and Exchange Commission is implementing a "claw-

19 Osinski, Jacek; Seal, Katharine & Hoogduin, Lex (2013). Macroprudential and Microprudential Policies: Toward Cohabitation. *Staff Discussion Notes* 13(5), 1.

20 Black, William K. (2012). The Department of Justice 'Chases Mice While Lions Roam the Campsite': Why the Department Has Failed to Prosecute the Elite Frauds That Drove the Financial Crisis. *UMKC Law Review* 80(4), 987–1020.

back” rule. Firms must develop plans to recover executive compensation earned as a consequence of “erroneously reported financial information.”²¹ Ostensibly this eliminates an executive’s motivation to structure internal compensation incentives that encourage dishonest dealings. It does not go far enough. Only the threat of incarceration will stop executives from engaging in or turning a blind eye to predatory and fraudulent activity.

Conclusion

Reparations are the beginning of a process in creating a more just and sustainable economy that works for all people. Direct payments are necessary but insufficient in creating a just and sustainable economy. Heterodox economics and the law and political economy intellectual frameworks are vital in understanding our economy as it presently exists and to envision what it can be. This new economy will replace speculative, extractive, exploitative boom and bust cycles with a more stable provisioning process that prioritizes improving human dignity. Federal job guarantees and financial reforms are two policies that work to this end. Reparative justice and the just transition are radical and necessary. Our intellectual frameworks and economic policies must be ambitious enough to meet that task.

21 US Securities and Exchange Commission (2022). *Listing Standards for Recovery of Erroneously Awarded Compensation*, Release No. 33–11126 (October 26, 2022) (the ‘Adopting Release’) at 1 (citing Section 954 of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd–Frank Act), which added Section 10D to the Securities Exchange Act of 1934).

