Introduction

Reconstructing the Debate on Globalization: from *Optimism* to *Doubt*

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1. The Raising of the Globalization processes. The Optimistic Era

Starting from the mid-1990s, the globalization process was seen as a positive phenomenon which was leading economies toward a path of sustained growth.

Jeffrey Sachs and Andrew Warner (1995) maintained that the globalization processes, measured by the market based international flows of goods and capitals, besides been responsible for the growth processes in developed countries, had the capacity to promote absolute convergence in income levels between developed and poor countries. In other words, since the poor countries, thanks to globalization processes, grow at higher rates than the developed countries, this in the long term leads to homogeneity in income levels at the international level.

According to Sachs and Warner, since 1970 this process was driven by the "most remarkable institutional harmonization and economic integration among nations in world history" (ibid., p. 1)[1] and

[1] According to the authors this process was not completely new. A first wave of global economic integration was witnessed during the period that ran from 1870s to the first World War. In the period within the two world

put forward by the newly established World Trade Organization and the International Monetary Fund. Economic integration means “not only increased market-based trade and financial flows, but also institutional harmonization with regard to trade policy, legal codes, tax systems, ownership patterns, and other regulatory arrangements” (ibid., p. 2). This process has the formidable capacity to explain the potential of growth of internationally integrated economies and “the onset or avoidance of economic crises” (ibid.). In conclusion the two main “promises” of globalization, which were of vital importance for many poor countries, were the reduction of poverty and the ensuring of economic stability. As we will see in section 2 these promises were systematically unfulfilled.

This optimistic approach towards the globalization processes is emphasized, although not unanimously, by many authors. Jeffrey Frankel maintains that globalization processes have generated a positive impact in the social sphere and in particular on the distribution of income (since the expansion of trade increases aggregate income and ultimately equality) and in protecting the environment (Frankel 2000, p. 64). This latter case, as the distribution of income, would be described with an "environmental Kuznets curve". According to this curve a growing income increases the material chances to protect the environment against pollution caused by industrial production.

As it will be detailed below, in this literature, globalization is intended primarily as a phenomenon derived from economic processes. This means mainly the reduction of transport costs, which originate in the private sector, and trade liberalization, resulting from decisions taken in the public sphere.

The process of integration of the world economies would therefore also have positive effects in reducing poverty and this seems to be the orientation of the World Bank. In 2002 the Bank

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wars this process of integration was interrupted as countries started to erect trade barriers, Sachs, Warner, 1995, pp. 5-12. For a comparison between the two waves of globalization see Bordo, Eichengreen, Irving 1999. For a critical reconstruction of this *vulgate* see Chang 2003, pp. 13-19; Chang 2008, pp. 26-31; Milanovic 2003.

published a report entitled *Globalization, Growth and Poverty: Building an Inclusive World Economy*, edited by Paul Collier and David Dollar.

From the report, albeit with due caution, it appears that in some countries globalization reduces poverty and inequality in income distribution. In this study the definition of the components of the globalization process is further articulated. Among the factors responsible for globalization, in addition to reduced transport costs and trade liberalization, the authors referred also to the spread of new media, namely the Internet, the increase in capital flows and the boost to the international migration of labor (Collier, Dollar 2002, p.11).

The general scheme of the report is that well internationally integrated economies generally grow faster than the other economies. This growth in poor countries is responsible for the escaping from rural poverty, for the increase in labour productivity and, if the process is well driven by national economies and international agencies, for the reduction of the income gap between rich and poor countries.

The observed decrease in global poverty is the result mainly of the growth processes initiated in the two most populous countries of the world: India and China.

Furthermore the authors underline that globalization processes do not contribute to increase inequality in the distribution of income within countries (ibid., pp. 11-13). They also maintain that the globalization debate, put forward by the so-called *global civil society*, has raised many question on the effects of globalization process regarding the problems of poverty reduction, the shift of power among groups within the national economies, the cultural transformation of countries and the environmental issues. As far as the globalization processes, according to the authors, they can contribute to respond to these challenges in a positive way.

For Collier and Dollar, in order to involve all the countries that have not yet benefited by the globalization processes, there is the need of a new round of commercial agreements. National economies must intervene also by putting into action selected policies and institutions that, generally speaking, must create an appropriate environment for local investments. In order to protect workers who do not benefit by the globalization processes some kind of *one-off* social policies must be put into operation (ibid., ch. 3).

This boundless confidence in the processes of globalization, though not unanimous, endured as a dominant view until the financial and economic crisis started in 2007. As we will see in the next section among the first authoritative critics of globalization emerges, with a great stir, an insider, Joseph Stiglitz.

2. The Criticism of Globalization

The first well-known critic of the triumphant so-called neoclassical globalization approach was Joseph Stiglitz. According to Stiglitz globalization is a process that potentially can generate a significant increase in growth and well-being in many poor countries of the world. The point then is that the advocates of globalization, namely the international bureaucrats of the World Trade Organization (WTO) and of the International Monetary Fund (IMF), systematically guided globalization for the sake of the economic interest of rich countries, and mainly for the economic interests of the United States (Stiglitz 2002, ch.1; 2003, ch.9). The charges of Stiglitz were of course well documented as he, during the 1990s, served as a member and then chairman of the Council of Economic Advisers of the President Bill Clinton and as senior vice president and chief economist at the World Bank. With his books on globalization Stiglitz explains to a wider audience the causes of the stream of protest raised against WTO and IMF, starting from the events of Seattle in 1999.

Stiglitz substantially demonstrated that the free trade liberalization process, which was invoked as the fundamental prerequisite of triumphant globalization, was not effective for the growth of poor countries, nor equitable[2]. This happened because the treaties imposed to developing and poor countries were studied in order to open those economies without reciprocity with developed countries and this process was related both to international trade and to the financial sector.

International trade is a fundamental step toward self sustained progress and any country of the world cannot even imagine to develop without increasing her capacity to produce and to export. This is probably an unquestioned aspect of the globalization process. The point is, as well explained by Ha-Joon Chang, that looking back at history of now developed countries it is possible to state that almost every country has used in the past protectionist policy measures in order to develop the national industrial sector (infant industry) and this applies to XVII century England, to France, Germany, United States, Sweden, Japan and, of course, to South Korea and China (Chang 2003, ch. 2).

According to Chang "infant industry promotion (…) has been the key to the development of most nations (…). Preventing the developing countries from adopting these policies constitutes a serious constraint on their capacity to generate economic development" (ibid., p. 10). Furthermore, developed countries, through their commercial treaties or with conditional loans, impose to poor countries a set of rules and institutions, such as the protection of intellectual property rights, financial institutions, Central Bank, democracy, efficient bureaucracy, corporate governance institutions that they did not have before becoming developed (ibid., ch. 3).

The conclusion of Chang is that the set of rules and institutions imposed to developing countries (and in the first place trade liberalization) is a perverse system of obstacles brought forward in order to prevent them to raise and develop autonomously. The point really interesting for our purposes is that for Chang, given these premises, globalization, in the version exposed in the section above, simply

[2] Stiglitz mainly referred to the *Uruguay Round* of 1987-1993 that leaded to the conversion of GATT (General Agreement on Tariffs and Trade) into the World trade Organization, Stiglitz 2002, pp. 7-9.

does not exist. There are institutions and power relationships at the international level which historically determine phases of intensification of international trade and phases of contractions. In essence, globalization is not, as on the contrary is emphasized also by Stiglitz, a phenomenon related to the possibility of economic and technological expansion of trade.

For Chang the puzzling question about the globalization processes is that

> "as a result of neo-liberal policies, income inequality has increased in most countries (…) but growth has actually slowed down significantly. (…). Neo-liberal globalization has failed to deliver on all fronts of economic life – growth, equality and stability. Despite this we are constantly told how neo-liberal globalization has brought unprecedented benefits" (Chang 2008, p. 28).

The crucial aspect of this criticism regards the dynamic of income inequality and growth at the international level. Many authors, in recent years, dealt with this subject in order to explain why the progressive integration of economies at international level produce many "negative externalities", such as the increase in income inequality and the ecological stress on the environment[3].

As far as the study on global income inequality, the most systematic analysis of this issue is the one of Branko Milanovic (2005, 2011). Contrary to the wisdom of the optimists, Milanovic shows that over the past twenty-five years, global inequality, measured both as internal inequality and as inequality between countries, has increased significantly. With regard to the first type of inequality, that is the one currently not yet well explained, the crucial point is why inequality in the advanced countries, especially the United States and Europe, after a long period of decline, has started to increase. In other words, the growth of inequality in income distribution, which is realized during the phases of industrialization, is explained by the fact that it is a physiological process that the transformation of poor economies produces a sudden social and economic stratification.

[3] For an analysis on China and India, see Bhaduri (2008).

This has happened in the past to the present advanced economies and more recently to the so-called emerging economies: China, India and Russia.

The question, however, is that the processes of globalization, at the opposite to what had been expected, did not favor the reduction of inequality and, at the same time, there has been a deterioration in the economic conditions of the poorest sections of societies, and this is true for both the developed and the developing countries.

The promises of globalization have not been fulfilled because with the expansion of the integration processes among countries, even if the income produced is increased, no process of convergence between countries has been achieved (Milanovic 2011, pp. 115-118).

According to Milanovic, the most obvious economic consequences for the process of growing inequality in the advanced countries affect the current economic and financial crisis. Deregulation of financial markets has not been the main cause of the crisis. It has helped to increase the effect of the crisis. The origin of the crisis lies in the progressive increase in inequality recorded in all countries in the last thirty years, and especially in the United States. A growing inequality means that the income of a small minority of the population increases dramatically. This income, in the case of the United States, has been poured into the financial market in search of investment opportunities and has substantially contributed to sustain the consumption levels of the American middle class which, as a result, is heavily indebted (ibid., pp. 211-214). The consequences of this process are known and will be further developed in this volume (see ch. 1).

In conclusion, on the one hand the neoclassical theory of globalization seems to be unsatisfactory because it does not explain the rise of the crisis and the persistency of poverty in many countries. The alleged convergence process was absolutely not operative. From another point of view this theory failed to see that global inequality was growing and that this process was among the causes that contributed to the financial and economic crisis of the present days.

3. A New World Bank? The Age of Doubt

The World Bank *Commission on Growth and Development*, in the words of the final report editors Michael Spence and Danny Leipziger, started its work in 2006 because "while we felt that the benefits of growth were not fully appreciated, we recognized that the causes of growth were not fully understood" (Spence, Leipziger 2010, p. xi). Furthermore "our understanding of economic growth is less definitive than commonly thought- even though advice sometimes has been given to developing countries with greater confidence than perhaps the state of our knowledge would justify" (ibid.). These statements are in sharp contrast with the optimistic and bold attitude of few years earlier. This much more cautious approach, as it is simple to guess, is due to the fact that the activities of the Commission where in few years overlapping with new unexpected events, namely the recent financial and economic crisis. Furthermore the editors of the report, on the one hand, testify that the contemporary theoretical framework regarding the processes of economic growth is much more full of unresolved questions compared with few years earlier and, at the same time, that the toolbox of the economists is almost empty.

For this last aspect, as it was remarked before the Commission, firstly by Easterly (2001) and then by Lindauer and Pritchett (2002), there was at a theoretical level the awareness of a general lack in the literature regarding the analytical explanation of development and growth processes. After the decline of the so-called season of "high development theory" of the 1950s-1960s (Krugman 1992; Hirschman 1981) there was not any "big" and consistent theory that was able to explain the development processes and the ways to guide the development policies. Eventually, if development economics was abandoned, the so-called globalization neoclassical approach did not triumph.

Then the question is: are we in the *Age of Doubt*?

For many economists who in the recent past were pretty confident of the power of the neoclassical globalization theory, the response to the question is affirmative. Anyway there is not at the moment any *convergence* in the economic theory regarding the explanation of the causes of the crisis. While Milanovic raises the problem of income inequality as the fundamental cause of the present crisis, in the 2010 report of the World Bank it is clearly stated that “the Commission believes that the crisis was a failure of the financial system” (Spence, Leipziger 2010, p. xii). Different causes require dissimilar cures so we still need to investigate which is the best way to handle the present economic situation.

There are many aspects related to the processes of globalization that need to broaden the scope of the issues under investigation and to help to understand in detail the effects of globalization on different national contexts. This volume then responds to the need to understand and deepen the study of the processes of international economic integration seen in the light of the recent economic crisis. The crisis certainly provides a strong incentive for research but, as has become clear from the review of positions analyzed above, there is not only one path of research that is able to contain all the economic and social issues raised by globalization.

An effective approach of investigation would be to look at globalization, and to the contemporary economic crisis, from a longer term perspective. This would allow researchers to interpret this phenomenon as a particular stage in the evolution of capitalism. In essence it is not possible to understand the characteristic phenomena of globalization without analyzing the historical processes that produced them. This means, above all, to investigate the role played by social, economic, and institutional aspects taken into consideration in a broad sense.

As suggested by Robert Heilbroner (1992), a broader vision on the evolution of capitalism allows us to see that the process of capital accumulation involves both aspects, success and failure. The success is measured by the improvement in the material well-being, while failure is manifested by the adverse social consequences and by the instability of the system. These processes are intertwined with each other and are essentially inseparable. In other terms, as long as there is capital accumulation, there will be also side effects (ibid. pp. 50-52).

This does not mean that the State can't intervene through policies designed to alleviate the adverse social consequences. With regards to the instability of the system, this problem is more difficult to solve because the processes of globalization have a geographical scope much larger than the field of action of national policies. Furthermore, international institutions, designed at least to watch over global processes, as we have seen above, are too oriented to the economic interests of the developed countries and, overall, are basically undemocratic.

Finally, a point on which it is useful to reflect refers to the fact that the problems of instability and the failures of the capitalist accumulation process derived from the operation of the private sector, not from the public one. For this reason, the results of the future scenarios will depend increasingly on the ability of the public sector to correct the failures and to govern international processes.

4. Content of the book

This book derives from a fortunate series of research seminars held at the University of Salento during 2011. They were devoted to the theme "Globalization and Economic Crisis". The seminars were organized by the two editors and by the Centre for Economic Studies, for the Degree Course of Political Sciences, where Claudia Sunna teaches Political Economy.

Those meetings provided a world survey of general processes of globalization together with specific analysis of regional contexts. The latter approach allowed us to see the effects of these processes in very different national contexts. The collection of all these written texts will be certainly useful to people interested in this topic.

Given these purposes the book is divided into two Sections. The first, *Facts and Theories*, is devoted to the analysis of some general concepts and processes, for which it is necessary to look at the global level of economic international relations. Chapter 1, by Toshiaki Hirai, addresses the key issue of financial globalization in order to explain how the process of integration of capital markets tends to intensify the instability of the system. In Chapter 2, Sunanda Sen looks at the controversial relation between globalization and economic development, and provides an overview of the theoretical approaches and of the effects of certain policies of globalization on developing countries. In Chapter 3, George Bitros discusses the positive effects of globalization on economic growth and underlines the importance of international trade in this process.

The second section of the book, *Case Studies*, is devoted to highlight how globalization affects the economic development in some national contexts. Toshiaki Hirai examines the case of Japan, Sunanda Sen analizes the situation in India, and María Eugenia Romero Sotelo and Juan Pablo Arroyo Ortiz study the case of Mexico.

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