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Globalization and Regionalization

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POVERTY AND INEQUALITY IN THE AGE OF GLOBALIZATION

Abstract

The paper examines the recent performance of the world economy using the two fundamental criteria of efficiency and equity. The common term of globalization is applied showing, on the one side, its multidimensional aspect, while on the other, its extension to different historical periods.

Then the phase of the *Pax Britannica* is recalled, when the rules of the game essentially were the *gold standard* and free trade. It is compared with the contemporary *Pax Americana* governed by the neo-liberal *Washington Consensus*, which has tried to harmonize the behaviour of the main private and public actors of the recent economic evolution: transnational companies, international financial intermediaries, nation states, regional and international organizations.

The «trickling down approach», which has inspired this *Consensus*, suggests that efficiency can drive equity to some extent, relying on market mechanisms above all. The limits of this point of view are shown, considering the empirical evidence, where the general picture of a growing world economy is accompanied by some critical remarks in terms both of inequalities between and within countries, and frequent signs of instability.

A new way of thinking is, therefore, emerging at all levels, to suggest a strong and direct link between equity and efficiency; it asks for more interventionism, especially in the institutional field. In line with this trend, the paper ar-

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gues in favour of creation of the *World Labour Organization*, more democracy and transparency in the existing international organizations, more regionalization than globalization.

Key words:

Equity and efficiency, globalization, inequalities between and within countries, nation states, Pax Britannica and Pax Americana, regional and international organizations, regionalization, transnational companies and international financial intermediaries, Washington Consensus and the «trickling down approach», World Labour Organization.

JEL: F00; O10.

1. Introduction

The subject of globalization is vast and, although my argument will follow a coherent line of thought, there will inevitably be some passages in it that I cannot document adequately.

As a general premise two criteria need to be taken into consideration when discussing economic questions, in both the theoretical work of scholars and in personal opinions about the functioning of an economic system. These are, firstly, the criterion of efficiency, which concerns the way available resources in an economic system are used and, secondly, the criterion of equity, which is the way the resources are distributed among the components of an economic system.

The relationship between equity and efficiency has been discussed at great length by economists, who are roughly divided into two groups: those who believe that the two criteria are in opposition to each other and those who believe, at least to a certain extent, that they are generally compatible. In either case there remains the question of how much importance a country decides to give to each one.

Together with many of my colleagues, I was taught by the great Italian economist, Federico Caffè, to not only appreciate the intrinsic value of equity, but also to believe that there are situations in which greater equity can in fact lead to greater efficiency.

The utility of this premise will be tested below in the discussion about globalization and poverty.

2. The Concept of Globalization

Whilst each of us can have a clear idea of what poverty is, we may have just a vague idea of globalization, even though the term has been widely adopted in recent years. In everyday language politics, culture, food, etc. are often associated with the idea of something called globalization.

The decisive impulse to the process probably came from the historical event that is symbolised by the fall of the Berlin wall in 1989 marking the victory of one of the *ways of life* that had vied with each other in the Cold War. At the risk of simplification, the winning bloc can be defined as democratic and capitalist in contrast with the losing bloc, in which single-party politics was combined with central planning in the economy.

The use of this dual term: democratic and capitalist, is fundamental, because it should be remembered that capitalism has historically shown great dexterity in living side by side with very authoritarian and repressive political regimes.

The fall of the Berlin wall is described here as «an historical event», though I must add that, like many others, I do not believe that the fall marked «the end of history» as Fukuyama wanted us to believe in his well-known book of the same title [11].

Although there are many facets to globalization, this paper will remain within the field of economics, given our professional interests, and will start with a definition which can be found on the Internet. It is attributed to a school teacher, a certain Mrs. Mirabello, who presented it to her pupils in a high school in the north of Italy.

«The term globalization refers to a complex economic phenomenon which means that the world is/could be/ should be one single market, where goods – including financial goods, real goods and services – are exchanged according to the law of supply and demand and prices are fixed where these variables meet» [21].

The reasons why this definition seems appropriate are the following:

1) The reference to a single market does not include labour as a «good» exchanged in the globalized market because, in fact, there still exist many barriers to the free movement of workers in many countries.

2) Furthermore, the juxtaposition of is/could be/should be summarizes the various attitudes towards globalization: the *is* represents those who believe globalization is practically already in place; the *could be* designates those who are more doubtful and think that globalization could be the direction in which the important powers today are driving the world economy; the *should be* stands for those who want to direct the world economy through regulations and directives towards globalization as the desired objective.

It is interesting to reflect whether this economic phenomenon can be considered as completely new. As I will try to show, albeit rather briefly, I would personally position myself among those who believe that globalization is not a new phenomenon and that it should be seen as an historical process developing over a number of years, that it is a multidimensional process and, lastly, that it is not proceeding in such a way that we can foresee a well-defined and inevitable conclusion.

The significance of what has just been said can be illustrated by making a comparison between the period that many scholars place side by side with the present period: on the one hand, the so-called *Pax Britannica*, when the world economy was largely controlled by London, the capital of the British Empire, and on the other, the so-called *American century* or *Pax Americana*.

Table 1, which I have prepared by myself, shows very simply the main elements to be considered in this multidimensional comparison between the two periods of the last century: it should also be remembered, in spite of the heading of the table, that the British Empire had evolved over the previous centuries and the beginning of the 21st century dawned under the domination of the United States.

Table 1.

Components of globalization

	at the beginning of XIX century	at the end of the same century
1. Goods	+	+
2. Services	?	+
3. Short-term investments	–	+
4. Long-term investments	+	+
5. Migration	+	–
6. Monetary integration	+	–

The sign «+» implies specific element being compatible with the idea of globalization
The sign «–» means incompatibility
The sign «?» means lack of evidence

Source: Tiberi (2002).

3. The World Economy during the *Pax Britannica*

Great Britain, and especially England, was the homeland of the industrial revolution; its main sectors were coal, steel, textiles, and railways.

An economy of this kind needed free access to outlets for its industrial production, as well as markets supplying raw materials (for example, cotton, silk, linen, rubber, etc) and food, though not just first necessity food (for example, coffee, tea, wine, tobacco, cocoa, etc).

Great Britain also dominated the services sector that supported production and trade: shipping, banks, insurance, and brokerage. Furthermore, the British merchant navy played a strategic role together with the powerful Royal Navy.

Testimony to the extraordinary economic power of Great Britain is the large outflow of capital abroad, often accompanying massive flows of emigrants, especially to the United States, Canada, Australia, New Zealand, and so on. These investments were mostly in the form of portfolio ones, financing many infrastructures in the countries of destination (railways, roads, aqueducts, ports, etc) through subscriptions of fixed return securities which were often public; at the same time, the first multinational companies were beginning to appear with their head offices in Britain.

3.1. The Basic Rules of the Game

The rules of the game were obviously dictated by the primacy of Britain and there were essentially just two rules.

The first concerned the circulation of money and the so-called *gold standard*, in which countries that wanted to take a large part in international trade adopted a national currency expressed in terms of gold. In this way it was objectively comparable with the currencies of other countries at exchange rates that were fixed in relation to the weight of gold in a unit of the national currency. The financial market of London, the famous City, played a fundamental role within the framework of this agreement, which was characterized by the stability of exchange rates. Indeed, the City's decisions had a direct influence on the main financial flows in the world, even though they did not always coincide with the needs of the real economy.

The second rule was the supposed application of the principle of free trade which allowed the movement of goods from one country to another without having to pay duties or come up against other barriers imposed by the importing countries. This principle was extremely advantageous to Great Britain, which was already leading the process of world integration; some scholars have, in fact, spoken of «the imperialism of free trade» [12].

However, the way countries took part in this game was at times full of contradictions, the most important of which was perhaps played out by a number of countries, especially Germany and the United States. These countries were in a position to start and then achieve an independent process of industrialization, which required a certain degree of protection for their «infant industries» from the more competitive British firms and therefore led to the introduction of duties. These two countries, as indeed others, especially in Europe, had also become sufficiently strong, politically speaking, to challenge the supremacy of Great Britain.

It is perhaps useful, however, to give a brief look at the cultural *raison d'être* of the British ruling class that contributed to the construction and consolidation of their empire. Although many more could be added, two quotations will suffice to provide a more articulated approach to the understanding of both historical and contemporary events.

The quotations are from historical sources:

«An essential ingredient in the imperialist ideology, when it came to full flower, was the feeling of the undisputed superiority of the civilization of which England was herself regarded as the most advanced and successful part» [9: 4].

«For some, this justification [of the British Empire] was founded on a typically moral motivation, under the assumption that Great Britain represented a higher form of civilization and it was her duty to extend the benefits of her government to less developed societies» [27: 150–151].

The purpose here is not to evaluate this experience from the point of view of efficiency and equity, but rather to reflect on how it came to an end in 1914, when the contradictions inherent in this process of globalization became so strong that they led to the First World War. The war was a tragic event which many observers of the time failed to foresee. As economists so often do when indulging in self-criticism, I would like to recall a statement made by an authoritative scholar C. K. Hobson, who wrote just a few months before the outbreak of the war:

«The signs are therefore favourable to a continued development of British foreign investment in the future, at a rate quite as rapid, if not more rapid, than ever in the past» [15: 242].

And also: «The task of British, French, and German investors should be not merely to provide or withhold capital from the world at their own whim and fancy, but to guide and direct the flow for the common benefit of humanity» [15: 25].

4. The *American Century* or the *Pax Americana*

A remarkable change began with the First World War, because the financing of the war effort had forced Britain to take out a big debt with the United States. This moment marked the beginning of the long phase that would see the United States take over as the supreme capitalist power from Britain, especially after the Second World War. There is neither sufficient time nor space here to trace the events over a century, but we can focus on the years following the watershed of 1989, when globalization became a talking point. Since then, the geographical area in which the mechanisms of the capitalist system were being set up, commonly known as a market economy, has expanded noticeably.

Although the global village has extended its borders, internally the distances have narrowed significantly, thanks to extraordinary technological developments in transport and communications, as shown in *Table 2*, based on data from the IMF [1: 248]. The basic characteristics of such a complex process may be understood more easily by identifying its main actors, as will be done in the following paragraphs.

Table 2.

Changes in transport and communication costs, 1930–1990

	1930	1950	1960	1970	1990
Air transport costs per passenger-mile	100	44	56	24	16
Cost of a three-minute telephone call between London and New York	100	22	19	13	1.4
Cost of using a satellite				100	8

Source: Acocella (2005a).

4.1. The Main Private Actors in Globalization

This brief overview of the main actors in the private sector will start with the enterprises that operate on a world scale in a variety of organizational forms, which has, in fact, led economists to change their name: the big firms that operate beyond national borders are now called transnational corporations (TNCs) rather than multinational companies (MNCs).

Table 3, which is presented below, presents fairly recent data and shows the situation to be dominated by the so-called Triad of the United States, the European Union and Japan [16]. Of the three areas, the United States emerges in a predominant position, a fact that is confirmed by other more general data about its economy, to which we will return later.

Table 3.

The world's largest 669 MNCs by country of origin: selected indicators, 1997

Country of origin	Number of companies	% of sample	% of the stock of FDI (outward)
United States	259	39.00	25.60
Japan	122	18.40	8.00
United Kingdom	88	13.30	11.70
Germany	38	5.70	9.20
France	29	4.40	6.40
Canada	22	3.30	3.90
Sweden	19	2.90	2.10
Australia	13	2.00	1.50
The Netherlands	13	2.00	6.00
Switzerland	12	1.80	4.40
Hong Kong	10	1.50	3.90
Spain	9	1.40	1.40
Denmark	7	1.10	0.70
Italy	7	1.10	3.50
Others	21	2.10	5.80
Total	669	100	94.2

Source: Ietto-Gillies (2002).

Other tables with even more recent data giving lists of the 25 largest non-financial companies with overseas establishments are presented below. The first list, which can be found in *Table 4*, includes firms from all over the world [42], while the second list in *Table 5* refers to firms from the developing countries [42].

Table 4.

World's top 25 non-financial TNCs ranked by foreign assets, 2004
(millions of dollars)

Corporation	Home economy	Industry	Foreign assets
General Electric	United States	Electrical & electronic equipment	448,901
Vodafone Group Pls	United Kingdom	Telecommunications	247,850
Ford Motor Company	United States	Motor vehicles	179,856
General Motors	United States	Motor vehicles	173,690
British Petro-leum Co. Pls	United Kingdom	Petroleum expl./ref./distr.	154,513
Exxon Mobil Corp.	United States	Petroleum expl./ref./distr.	134,923
Royal Dutch/Shell Group	United King-dom/Netherlands	Petroleum expl./ref./distr.	129,939
Toyota Motor Corp.	Japan	Motor vehicles	122,967
Total	France	Petroleum expl./ref./distr.	98,719
France Telecom	France	Telecommunications	85,669
Volkswagen AG	Germany	Motor vehicles	84,042
Sanofi-Aventis	France	Pharmaceuticals	82,612
Deutsche Tele-com AG	Germany	Telecommunications	79,654
RWE Group	Germany	Electricity, gas and wa-ter	78,728
Suez	France	Electricity, gas and wa-ter	74,051
E.on	Germany	Electricity, gas and wa-ter	72,726
Hutchison Whampoa	Hong Kong	Diversified	67,638
Siemens AG	Germany	Electrical & electronic equipment	65,830
Nestle SA	Switzerland	Food & beverages	65,396
Electricite De France	France	Electricity, gas and wa-ter	65,365
Honda Motor Co Ltd	Japan	Motor vehicles	65,036

Corporation	Home economy	Industry	Foreign assets
Vivendi Universal	France	Diversified	57,589
Chervon Texaco	United States	Motor vehicles	57,186
BMW AG	Germany	Motor vehicles	55,726
Daimler Chrysler	United States/Germany	Motor vehicles	54,869

Source: UNCTAD (2006), Table 4 (partial reproduction).

Table 5.

Top non-financial TNCs from the developing countries ranked by foreign assets, 2004 (millions of dollars)

Corporation	Home economy	Industry	Foreign assets
Hutchison Whampoa Limited	Hong Kong, Cina	Diversified	67,638
Petronas-Petrolian Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	22,647
Singtel Ltd	Singapore	Telecommunications	18,641
Samsung Electronics Co. Ltd	Republic of Korea	Electrical & electronic equip.	14,609
CITIC Group	China	Diversified	14,452
Cemex S. A.	Mexico	Construction	13,323
LG Electronics Ins	Republic of Korea	Electrical & electronic equip.	10,420
China Ocean Shipping (Group) Co	China	Shipping	9,024
Petroleos De Venezuela	Venezuela	Petroleum expl./ref./distr.	8,868
Jardine Matheson Hol Dings Ltd	Hong Kong, China	Diversified	7,141
Formosa Plastic Group	Taiwan Province of China	Industrial chemicals	6,968
Petroleo Brasileiro S. A.- Petrobras	Brazil	Petroleum expl./ref./distr.	6,221
Hyundai Motor Company	Republic of Korea	Motor vehicles	5,899
Flextronics International Ltd.	Singapore	Electrical & electronic equipment	5,862
Capitaland Limited	Singapore	Real Estate	5,231

Corporation	Home economy	Industry	Foreign assets
Sasol Limited	South Africa	Industrial chemicals	4,902
Telmex	Mexico	Telecommunications	4,734
America Movil	Mexico	Telecommunications	4,448
China State Construction Engineering Corp	China	Construction	4,357
Hon Hai Precision Industries (Foxconn)	Taiwan Province of China	Electrical & electronic equipment	4,355
Shangri-La Asia Limited	Hong Kong, China	Hotels and motels	4,209
New World Development Co. Ltd.	Hong Kong, China	Diversified	4,202
Sappi Limited	South Africa	Paper	4,187
China National Petroleum Corp.	China	Petroleum expl./ref./distr.	4,060
Companhia Vale do Rio Doce	Brazil	Mining & quarrying	4,025

Source: UNCTAD (2006), Table 5 (partial reproduction).

To avoid overloading the presentation with too much empirical data, it will be sufficient to consider *Table 6*, which refers to foreign direct investments (FDIs) and reveals a qualitative characteristic of these investments. The outflows of FDIs continue to come mostly from developed countries, as shown in Table 3, but there is also a prevalence of developed countries receiving the inflows, often as a consequence of competition between big multinational companies [42]. Apart from this, there appears to be a tendency towards an increase in the share of FDIs going to developing countries that may sometimes be reminiscent of the predatory nature of investments at the time of the various Empires of the last century (British, German, French, etc). And lastly, the table shows some recent relevance in the inflows in countries belonging to the area of what was called «real socialism».

One last piece of information about the presence of multinational companies in the world economy is that, according to reliable sources [39: 153], two thirds of the world trade is controlled by multinational companies, with internal movements between head offices and foreign branches or movements directly between the companies and markets in various countries.

Two additional pieces of empirical evidence, coming from different sources, confirm this movement of goods.

Table 6.

FDI flows by region and selected countries, 1994–2005 (percent)

	FDI inflows							FDI outflows						
	1994–1999(*)	2000	2001	2002	2003	2004	2005	1994–1999(*)	2000	2001	2002	2003	2004	2005
Developed economies Triad: UE, USA, Japan	68.2	80.4	72.0	71.4	64.3	55.70	59.2	88.0	88.2	89.6	89.9	91.7	84.4	83.0
Developing economies	30.4	18.9	26.6	26.5	31.4	38.7	36.5	11.7	11.6	10.0	9.2	6.3	13.9	15.1
South-East Europe and the CIS	1.4	0.6	1.4	2.1	4.3	5.6	4.3	0.3	0.3	0.4	0.9	1.9	1.7	1.9

(*) (annual average)

Source: UNCTAD (2006), Table 1 (partial reproduction).

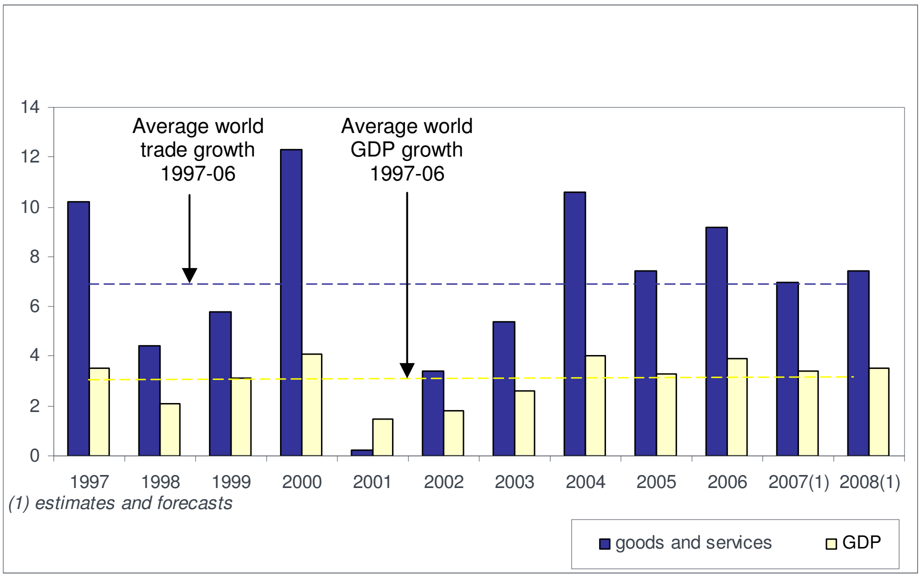
Figure 1 shows the different dynamics, though both with positive trends, of two phenomena over a period of about ten years. On the one hand, world production grew steadily over the period and, on the other, trade in goods and services grew faster than production, except for 2001 as could be expected [31: 7].

These trends are an obvious sign of a greater opening of national economies to international integration throughout the world, as shown by the second source, *Table 7*, which refers to an earlier period and to a few specific countries [2].

Table 8 is of particular interest because it focuses on a part (bonds and shares) of flows of financial movements, the so-called foreign portfolio investments (FPIs), even though the information is a little outdated as it is not easy to find recent data on such a vast group of countries. These portfolio investments, which accompany and are often merged with direct investments (FDIs), can be made by multinational companies themselves, but also by private financial intermediaries: banks, insurance companies, pension funds, etc.

Figure 1.

World trade and production, 1997–2008 (% variation of volume)



Source: Ssn e Ice (2007).

Table 7.

Merchandise exports as per cent of GDP at 1990 prices, 11 countries and the world: 1950, 1973, 1998

	1950	1973	1998
France	7.6	15.2	28.7
Germany	6.2	23.8	38.9
Netherlands	12.2	40.7	61.2
United Kingdom	11.3	14.0	25.0
Spain	3.0	5.0	23.5
United States	3.0	4.9	10.1
Mexico	3.0	1.9	10.7
Brazil	3.9	2.5	5.4
China	2.6	1.5	4.9
India	2.9	2.0	2.4
Japan	2.2	7.7	13.4
World	5.5	10.5	17.2

Source: Acocella (2005).

Table 8.

Cross-border transactions in bonds and equities*
as a percentage of GDP, 1975–1998

	1975	1980	1985	1990	1995	1998
Germany	5	7	33	57	172	334
Canada	3	9	27	65	187	331
France	n.a.	5	21	54	187	415
Italy	1	1	4	27	253	640
Japan	2	8	62	119	65	91
USA	4	9	35	89	135	230

* Gross purchases and sales of securities between residents and non-residents.

Source: Bank for International Settlements (1999).

Here is one of the most significant features of the globalization process, as indicated by the extraordinarily dynamic trend shown in the table, and, what is more, it refers to just long-term portfolio investments. In fact, it is well-known that substantial movements of even very short-term capital take place thanks to the modern technology that sustains the development of international financial markets.

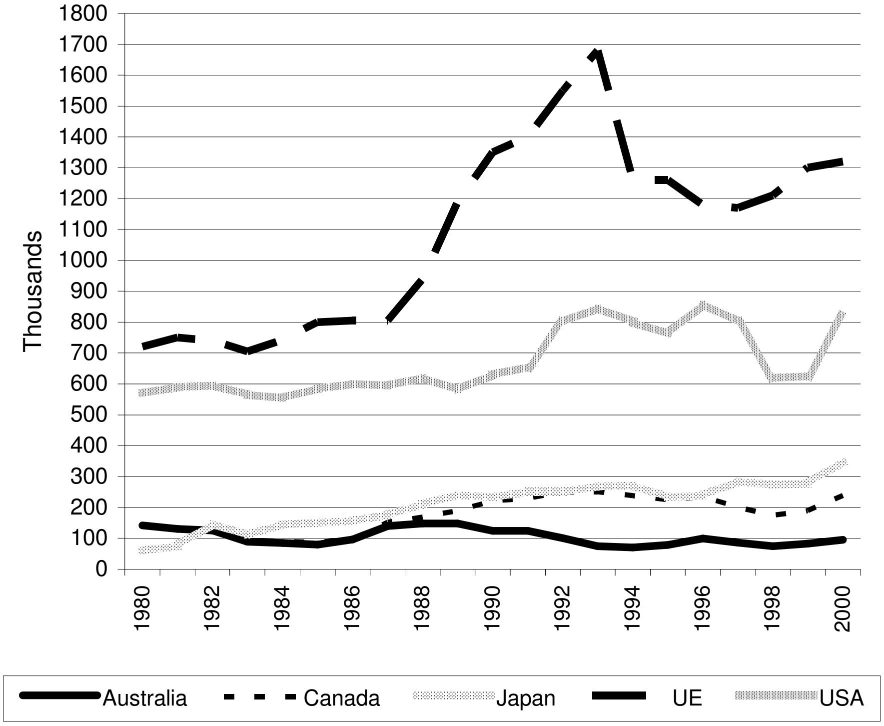
From an economic point of view these movements of capital have been facilitated by the increased convertibility of national currencies and especially by the measures adopted to liberalize them. Thanks to the encouragement of international institutions, this liberalization has also taken place in developing countries, although in some cases there has been a return to regulations after the financial crises of recent years. Some of these countries have experienced the incompatibility of fixed exchange rates, independent monetary policy and mobility of capital, as had happened previously elsewhere, especially in EU member states.

On the other hand, the change from a fixed to a floating exchange rate between currency areas does not seem to have significantly affected the growth of financial capital movements that are stimulated by the numerous currencies in circulation, a sign of the insufficient degree of globalization reached in this important segment of the market economy.

At the same time, however, these capital movements are one of the most controversial features of globalization because, even if there are good reasons to argue in favour of their beneficial qualities, numerous serious financial crises have led some experts of the IMF to write, with reference to the weakest parts of the world economy : «The main conclusions are that, so far, it has proven difficult to find robust evidence in support of the proposition that financial integration helps developing countries to improve growth and to reduce macroeconomic volatility» [29:11].

Figure 2.

Immigrant flows



Source: OECD (2002).

Among the private actors of globalization we also have to include the weakest actors, those involved in migratory flows. To be more precise, at least most of them are the weakest, because a certain number of people, especially those with high professional qualifications, are actually in a position to decide of their own accord to work abroad.

Although there is space here for just one graph with information about immigration, this does not reflect in any way a lack of interest in such an important topic that concerns millions of people on the move, taking with them their baggage of sentiments, needs and hopes.

Figure 2 shows that at the moment Europe is the area that is most affected by migratory movements, which have undergone a substantial increase, also as a consequence of the collapse of the economies in the countries of «real socialism».

4.2. The Main Public Actors in Globalization

Other actors in the world economy come from the public sector, starting with nation states. There has been much debate in recent years, and with some reason, about the downsizing of the role of nation states; this is also happening in Europe where a complicated process of aggregation has been underway for a few decades. It is an historically unprecedented process because it is taking place through democratic mechanisms and not through the use of force by imperialist powers. Certainly this aggregation involves a transfer of national sovereignty at supranational levels; however, this should not constitute, as often happens, an excuse for governments of individual states not to comply, as they still retain wide areas of discretionary powers that can be used in different ways by each one.

As far as the very strong nation states are concerned, it is worth considering briefly the widespread debate, itself a sign of democracy, about the different social models that can be followed. The United States seems to emerge triumphant from this comparison thanks to their economic success that has understandably resulted in the last century being called the *American century*.

Leaving to one side Japan, the third component of the Triad, let us now make a brief comparison of the US and the Europe of 15 countries before enlargement led to the present day EU of 27 members, in view of the literature available on this subject. Although this Europe is a new entity made up of countries that are still markedly different from each other, there is no doubt, however, that the discussion generally centres on a comparison of the American, more market-oriented model with a European *welfare state* model.

A rough picture of the economies of these two big areas in recent decades is given in *Table 9* and *Figure 3*, which present data on two variables that are essential for an assessment of the trend of these two economic systems, namely the GDP growth rate and the unemployment rate.

Table 9.

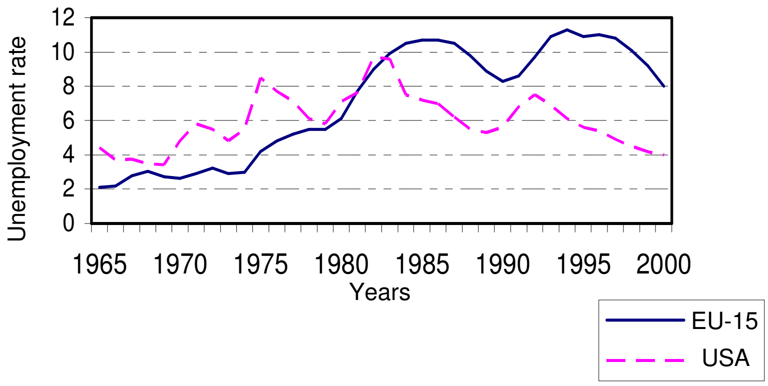
Average rates of growth of GDP (GDP at 1995 market price)

	EU-15	USA
1961–1970	4.9	4.2
1971–1980	3.0	3.2
1981–1990	2.4	3.2
1991–2000	2.0	3.4

Sources: «European Economy», 2000 (71); «OECD Economic Outlook», 2001 (69).

Figure 3.

The trend of unemployment in the USA and EU-15, 1965–2000



Sources: OECD (1997; 2001; 2002).

Until the 1980s the European economy kept pace with, at times even went faster than the US economy; the situation then inverted during Reagan's presidency and even more so during that of Clinton's. The US recorded an extraordinary phase of development without any significant inflationary problems, so much so that many scholars started talking about the *New Economy*.

New Economy was a kind of slogan that had already appeared elsewhere in economic literature; the most famous case is perhaps Walter Rathenau, the famous Jewish entrepreneur who used the expression «new economy» when he held important economic and political positions in Germany in the 1910s. He proposed a kind of «capital socialism» that anticipated to a certain extent fascist corporativism and was an attempt to sketch out an alternative path to orthodox capitalism and soviet socialism [30].

The propulsive force of the American *New Economy* has been mainly explained by the rhythm of innovation in information technology (computer, software, internet and telecommunications). However, this productive sector is accompanied by the more traditional industries and services, such as the car, aeronautic, oil, food, arms industries, etc.

Among the public actors of globalization, we also have to consider many international institutions, which can be divided into those working at a regional level and those at the world level. It is not just a question of geography, because the co-existence of these two possible levels of coordination between nation states represents, in my opinion, one of the most serious political problems today. To get at least a basic idea of the question that emerges from the work of economists, though it has much wider implications, we have to look at what has been happening in the world in recent years. In fact, we are witnessing the action of spontaneous impulses of markets and discretionary choices of governments that lead towards the formation of more or less close-knit regions and a single global area at the same time. The question is whether the two tendencies are compatible; could they converge in the near future or will the future be coloured by an eternal conflict between the two tendencies, one towards regionalization, the other globalization?

A few years ago at a Conference held at Florianopolis [35] I was able to reflect on the possible, and widely debated, conflict between regionalization and globalization in the world. I urged the progressive groups in Brazil to work at both political and economic level to re-launch the development of MERCOSUR and, at the same time, at an analytical level, as discussed in a subsequent paper, «to reconsider the category of imperialism and identify, within the standardised world that is proposed to us by the apologists of globalization, the presence of various propulsive forces that are dynamic but often bearers of economic and political instability. And within these forces, to re-propose a hierarchical view of the world political-economic system; in this way the complex network of international relationships … can be metaphorically compared to the image of a pyramid, with the United States at the top in the same way that Britain in the past had filled the role of supreme imperial power» [37: 109].

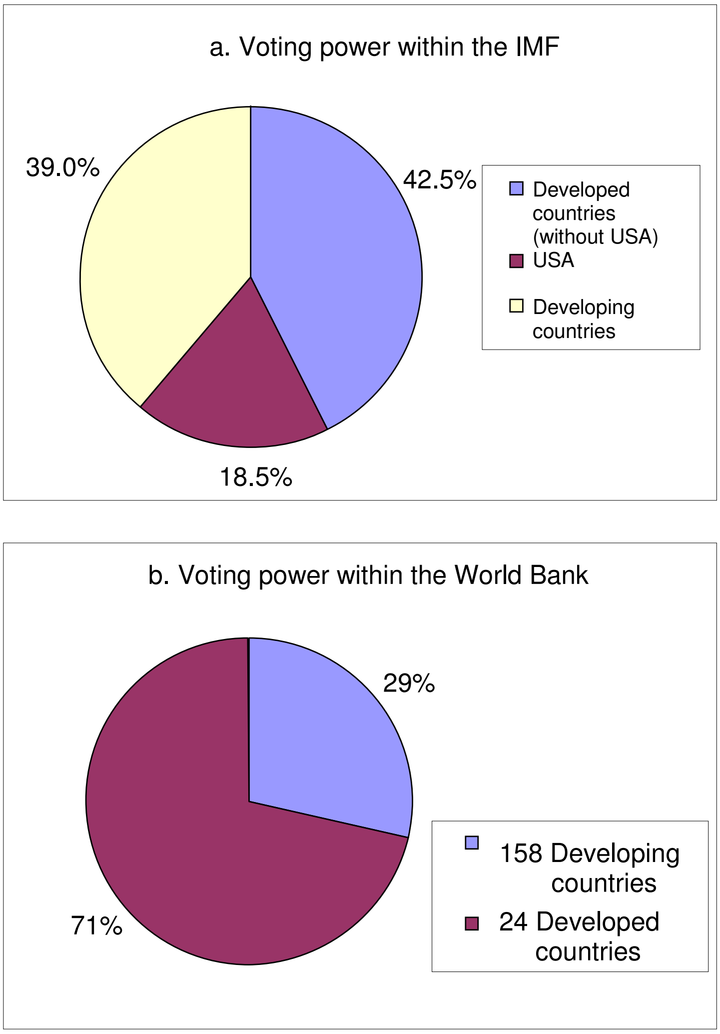
Supranational organisations are known by their acronyms, which can be found in the Appendix (***List of Abbreviations,*** p. 34), where all the worldwide organisations, but only a few of the numerous regional organisations, are listed. Among the latter, the European Union deserves a special mention as a model of strong aggregation between countries, perhaps because it is also political. Other aggregations, though much weaker, are also included, such as NAFTA that involves the United States, Mexico and Canada; MERCOSUR which includes various countries in South America; and ASEAN, an association of mostly Asian countries.

The leading world organisations are: the International Monetary Fund (IMF) which is concerned mostly with the stability of financial markets; the World Bank (WB) which works to help developing countries; and the World Trade Organisation (WTO), a more recent creation whose main task is to define the rules for the international exchange of goods and services. There is also the International Labour Organization (ILO) that has limited authority in documentation, information, proposals concerning, obviously, matters of labour.

The rules that hold together this group of actors are established in the most important seats of world economic and political power. Apart from what has already been said about the presence of multinational companies and international financial intermediaries, there is another point to be remembered here, as shown in *Figure 4*: the distribution of votes in the Imf and the World Bank is defined on the basis of the financial resources granted to the two institutions by the various countries [45].

Figure 4.

Voting power within the IMF and the World Bank



Source: German and Randel (2002).

The logic behind these rules has been encapsulated by the press in recent years by the expression *Washington Consensus*, whose meaning is very clear in view of the fact that the decision-making centres of the IMF, the World Bank and the US Treasury are all based in Washington.

The «recipes» advocated by this *Consensus* are the quintessence of the so-called neo-liberalism, which launched an apology for the market at the end of the last century after it had been overshadowed in the 1950s and 1960s by the cultural dominance of Keynesian interventionism. These include the liberalization of international trade and financial movements, the opening to foreign direct investments by multinational companies, privatization, floating exchange rates, extensive deregulation, with just a few exceptions such as the regulations concerning internal and external defence, both monetary and fiscal macroeconomic stability, which are to be achieved, respectively, by paying special attention to inflation and by lowering taxes, especially on higher incomes, to balance the state budget together with an inevitable cut in public spending.

4.3. Efficiency and Equity in This Phase

A quick way of dealing with this question is to recall an image that has been proposed by one of the supporters of the *Washington Consensus*, who described the neo-liberal economic mechanism based on the spontaneous working of the market forces as a «trickling down» mechanism. It can lead to a great increase in the income produced, most of which will certainly go to those who hold a powerful position in the market, but it will also spill over, or rather trickle down, to the poorer classes. Growth will certainly give these classes a chance to be better off, even to escape from poverty, but it does not necessarily lead to greater interpersonal equity in the system. On the other hand, the mechanism should not be obstructed by measures for redistribution which are intended to reach greater equity, but can actually undermine the objective of efficiency: in the end, efficiency and equity are, from this point of view, opposite objectives to some extent.

It has to be said that the metaphor of «trickling down» draws on theoretical elaborations that have proved the capacity of the market to generate development also through the integration of national economic systems. In particular, this proof emerges when an economic analysis studies the effects of international trade, which may enhance the advantages of specialization, economies of scale, competition between firms at a world level and greater choice for consumers. However, even leaving to one side the doubts about the general validity of these free-trade views that can be raised by a neo-protectionist theoretical analysis, there always remains the question of the multidimensional nature of globalization. And therefore we cannot ignore the deep reservations that have been expressed about the supposed advantages of the free circulation of financial capital as advocated and practised by the *Washington Consensus* group, nor the intrinsic nature of the «market», which, besides its «failures», certainly can bring with it efficiency, but not equity [22].

In the light of this «trickling down» approach, data should give a picture that is made up almost entirely of «winners» in neo-liberal globalization, so let us now look at some of the significant results reached in the world economy over the last few decades.

Table 9 has already indicated the different, but positive, growth rates of Gross Domestic Product in both the United States and the EU of 15; together they account for a large part of the world economy, which itself has grown on the whole, at a good pace, as shown in *Figure 1.*

In this context the growth rates of two big Asian countries, China and India, have generated particular interest and a few worries, especially in the case of China which has been growing, on average, at more than 8% for the last twenty years, twice the rate reached by India (UNCTAD, 2005b, Table 1.5). Both countries are still classified as Developing Countries on the basis of many indicators, above all the average income per capita, even though the size of the two economic systems is such that they are exerting a considerable influence on the prices and flows of goods exchanged internationally and on the economic situation of other countries, both developed and developing.

The results reached by these two big countries, together with the opening up of their economies, have rightly heartened the promoters of globalization. However, a word of caution about simplistic deductions is necessary: many factors contribute to the development of an economic system and therefore it can be misleading to overestimate the importance of the degree of opening to international exchanges (Lane and Schmukler, 2006). At the same time, caution is also advisable for those who tend to blame the liberalization of national markets as entirely responsible for negative trends in any economic system, which could have produced the «losers» in globalization [3: 7].

Two other tables giving information about the distribution of income in the world economy can help to trace a general outline of what has happened to equity in more or less the same period. In fact, these tables indicate at least some of the basic facts about a very complex phenomenon, but, for example, the trend of the distribution of income between countries is not taken into consideration, even though some interesting empirical studies have been made [5; 20; 43].

Table 10, nevertheless, gives an idea of the «trickling down» by showing the trend of the so-called absolute poverty, which uses the personal income level of less than of 1$ a day as the conventional point of reference. There has been a general improvement in the situation in the world, but a worsening in absolute terms and as a percentage in certain areas. The effect of Chinese development on the data can be seen in the last line of the table, which shows, after the deduction of the Chinese figures that the number of people living in absolute poverty has increased.

The literature has also proposed other indicators of poverty, as for example the index of relative poverty that compares the average income of each person with the average income of the whole population, thus giving an indication of the degree of inequality in the country [3: 218].

There is also the Human Development Index (HDI), which considers life expectancy at birth, adult literacy as well as the average income per capita; however, many doubts have been raised about the validity of this index in Brazil [28]. In fact, the progress made in this important country in matters of equity has been attracting the interest of a number of scholars, as can be seen in two very recent sources: the report of an important international body [43] and an article in an authoritative economic journal [7].

The above mentioned UNCTAD *Report* expresses an opinion on the evolution of the Chinese economy in terms of equity; it says that «both relative poverty and the gap between the rich and the poor are growing» [41].

Table 10.

Poverty in the world by geographical area, 1987–1999

	Number of people living on less than $1 per day (millions)			$1 per day headcount index (percent)		
	1987	1990	1999	1987	1990	1999
East Asia and Pacific	418	486	279	26.6	30.5	15.6
East Asia and Pacific excluding China	114	110	57	23.9	24.2	10.6
Europe and Central Asia	1	6	24	0.2	1.4	5.1
Latin American and the Carribbean	64	48	57	15.3	11.0	11.1
Middle East and North Africa	9	5	6	4.3	2.1	2.2
South Asia	474	506	488	44.9	45.0	36.6
Sub-Saharan Africa	217	241	315	46.6	47.4	49.0
Total	1,183	1,292	1,169	28.3	29.6	23.2
Total excluding China	880	917	945	28.5	28.5	25.0

Source: Fischer (2003).

Table 11 shows what happened at the end of the century in a number of developed countries in the OECD, where the tragic situation of absolute poverty does not exist, but relative poverty does. The data are quite old, but it is difficult to find research that offers such a broad view; in any case, they show that the economic systems of many countries have become less equitable.

Table 11.

Variations in income distribution between mid-1980s and mid-1990s, OECD countries

	20% poorest	20% median	20% richest
Australia	=	=	=
Austria	=	=	=
Belgium	=	– – –	+ + +
Canada	=	=	=
Denmark	+	=	–
Finland	=	–	+
France	=	–	+
Germany	–	=	+
Japan	–	=	+
Greece	=	=	=
Ireland	+	=	=
Italy	– – –	–	+ + +
Mexico	=	– – –	+ + +
Norway	–	–	+ + +
Holland	–	=	+
Sweden	–	=	+
Turkey	–	– – –	+ + +
Hungary	+	=	=
United Kingdom	–	–	+
United States	=	–	+

+ + + : increase in income share of more than 1.5%
– – – : reduction of more than 1.5%

Source: Forster e Person (2002).

It is worth mentioning at this point a phenomenon that first appeared in the United States, but has since spread to other countries, including Italy. It concerns the gradual fall, or lack of growth, of real wages in a number of sectors in the labour market, especially of unskilled worker who have become the «working poor» and are most at risk as a consequence of greater international integration. This worrying regression in the standard of living, both absolute and relative, is taking place at the same time that large groups of skilled workers are receiving higher wages and has not been offset by the introduction of a minimum wage, which has also been adopted in Brazil. The minimum wage certainly represents an appropriate tool to enable, as President Lula said, «the poorer part of the population to have the right to eat» [6: 50], but the large-scale increase in the number of the «working poor» draws attention to the effects that the mechanisms of globalization can have on workers.

There are quite a few examples given by the economic events of the last few decades that throw doubts on the cultural approach represented by the *Washington Consensus*. Below is a list of some of these events, though there undoubtedly are others that could be added:

1. Numerous financial crises: Mexico (1994–95); various Asian countries (1997–98); Russia (1998); Brazil and Turkey (1999–2001); Argentina (2001); United States (2007). They caused serious damage to the populations caught up in a more or less drastic fall in national production.
2. United States' economic policy that has been characterised for many years, in full Keynesian tradition, by a very high budget deficit which is financed by other countries, including China.
3. Asymmetrical liberalization of the movement of goods; a particularly sore point is the demand for an opening of markets in developing countries by developed countries, whilst they continue with a policy of protectionism, especially for their own agricultural products.
4. Liberalization with a limp: whilst there has been an extensive liberalization of the movement of goods and capital, there are growing or constant restrictive policies on the movement of people.
5. Inadequacy of the quantity and forms of aid; in fact, although developed countries have promised to give 0.7% of their GDP to aid for the least-developed countries (LDCs), the data show that only six countries, and relatively small ones (Denmark, Holland, Sweden, Norway, Luxembourg, and Belgium) have actually kept that promise.
6. An enormous amount of FDIs making some economies too dependent on the policies of multinational corporations.
7. Scandalous episodes of illegal behaviour by either owners and/or managers of some of big corporations, which have forced governments to rethink the rules of corporate governance.
8. Greater attention given to the so-called Global Public Goods (environment, health) as a result of environmental degradation (eg. the ozone hole), natural calamities (eg. tsunami) and epidemics (eg. Hiv/Aids, avian flu). GPGs can be safeguarded only through coordi-

nated policies and strategies run by governments rather than by the market.

9. Persistence of and, in some cases, increase in inequality between and within countries.

5. Are Equity and Efficiency Compatible?

A certain rethinking of the «trickling down» theory is underway at the moment and this last section of the paper will present some concrete examples of this also by quoting from documents published by big international organisations over the last few years. These documents contain the exact targets to be reached as solutions to the problems discussed above, and this is a very positive sign for a democratic control over policy makers' behaviour.

The first document is the *Millennium Declaration* of the General Assembly of the United Nations in September 2000 [50], in which the good intentions of the international community at the beginning of the century are expressed at times:

«5. We believe that the central challenge we face today is to ensure that globalization becomes a positive force for all the world's people. For while globalization offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed.

19. We resolve further:

- to halve, by the year 2015, the proportion of the world's people whose income is less than one dollar a day and the proportion of people who suffer from hunger and, by the same date, to halve the proportion of people who are unable to reach or to afford safe drinking water;
- to ensure that, by the same date, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling and that girls and boys will have equal access to all levels of education;
- by the same date, to have reduced maternal mortality by three quarters, and under-five child mortality by two thirds, of their current rates;
- to have, by then, halted, and begun to reverse, the spread of Hiv/Aids, the scourge of malaria and other major diseases that afflict humanity;
- to provide special assistance to children orphaned by Hiv/Aids;
- by 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers as proposed in the «Cities Without Slums» initiative».

The second document was published following the International Conference on Financing Development held by the UN in March 2002 and was named the *Monterrey Consensus*, after the Mexican city where the meeting was held [51].

In this case, the important passages are to be found in the preamble, where it says:

«Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system».

And later the declaration itself says:

«7. Globalization offers opportunities and challenges. …there is a strong need for policies and measures at the national and international levels, formulated and implemented with the full and effective participation of developing countries and countries with economies in transition…».

This last quotation is particularly significant, because it reappeared recently in a document published by the World Bank, an organisation whose work has always been considered as a typical expression of the *Washington Consensus*. Indeed, its work, especially on the question of equity, has also been criticised by the Nobel Prize winner Joseph Stiglitz, who held the position of Vice-President of the organization for a few years [33].

The statement of principle that it contains is reassuring to those, including myself, who have firmly stood out against the advocates of neo-liberalism. In fact, the *Report* of the World Bank is basically an official confirmation of this statement and is given below:

«For many if not most people, equity is of intrinsic importance as a development goal in its own right. But this report goes further, by presenting persuasive evidence that a broad sharing of economic and political opportunities is also instrumental for economic growth and development. This is for economic reasons, because greater equity can lead to a fuller and more efficient use of a nation's resources» [43: 11].

Economists should not jump to rushed and simplistic conclusions, but it is very hard to deny the fact that since the neo-liberal «trickling down» theory has been put into practice, inequality between countries and within countries generally has not diminished, and, in fact, in many cases it has actually increased. *Table 10* shows that absolute poverty has also increased in some geographical areas.

It is still too early to check on the outcome of the good intentions expressed by the international community in the important documents mentioned above. However, after observing what has happened in the first years of the new century, the first doubts about the possibility of reaching the objectives expressed in the *Millennium Declaration* [41] are emerging.

In truth, the statement of the objectives in precise quantitative terms was a positive assumption of responsibility by political leaders in the face of public opinion, which, however, would certainly prefer these objectives to be reached by the deadline rather than hear a detailed report on the failure to reach them. It should also be noted that these objectives concern expressions of social suffering in the fields of labour, health, education and housing that cannot be measured simply in terms of *per capita* income. In fact, the beginning of the *Report 2006* says:

«Across the world, individuals and groups face highly unequal opportunities to better themselves economically and socially» [43: 28].

Apart from the need to proceed with a more refined analysis, there does appear to be a tendency to follow a different course which, as the World Bank itself says, should suggest that greater equality can lead to greater efficiency.

A similar orientation can be found in the program *Per il bene dell'Italia* that the centre-left wing Union presented during its election campaign last year: «The pairing of «work and welfare» is the main stay of the values that inspire our economic and social policies. The starting point is the creation of a virtuous circle between economic and social development, between rights and growth, between competitiveness and justice: a welfare state defined as an «area of justice» and as «a factor of production»«[46: 16].

Of course the challenge of how to combine efficiency and equity goes far beyond the borders of Italy, and in any case, there are plenty of indications on how to move in that direction. Basically there is a need to correct the neo-liberal thought that hides the «failures of the market» (externalities, public goods, absence of perfect competition, asymmetrical information, inequality in distribution between countries and within countries, etc), which have been clearly illustrated by economic theory and empirical evidence [8: 67–69].

It is therefore a question of defining the new «rules of the game» that also take into account the equally well-known «failures of government» (corruption, bureaucracy, self-survival of the political and administrative classes, etc), which often prejudice the introduction of progressive attitudes in all countries, including developing countries.

From an historical perspective it has been possible to foresee and also to hope for a strengthening of economic regionalism, and perhaps also political regionalism, because it is believed to be a better way of guaranteeing more liberal and democratic international relations at a world level through the mediation of strong geo-political actors [37: 112]. It is for this reason that the formation of a more solid MERCOSUR, as President Lula seems to want, is to be encouraged in that area [52].

This point is not in contrast with the other need to radically modify the guidelines of the behaviour of international organizations to make them more responsive to the needs of weaker countries and classes. For this purpose it is perhaps necessary, though it may not be sufficient, to intervene to widen as far as possible the democratic participation in and the working transparency of these institutions: IMF, WB, WTO.

This has to be accompanied by a cultural change that makes it possible to proceed politically towards, for example: a new equilibrium in the norms on international exchanges between developed and developing countries; the setting up of mechanisms favouring financial transfers towards LDCs with aid directed at prevention or the cancellation of debt; easier access to technological innovations; the creation of stable national financial markets before moving onto the initial phases of the liberalization of capital movements; the introduction of instruments to discourage financial speculation, such as the *Tobin tax,* that can potentially create new resources for redistribution; funds to be allocated to the production of GPGs.

Technically speaking, an efficient synthesis of at least some of the new rules to be adopted can be expressed in the following terms:

«A well coordinated international macroeconomic approach would considerably enhance the chances of the poorer countries to consolidate the recent improvements in their growth performance. Such an approach would also have to involve the major developing countries and aim at avoiding deflationary adjustments to the global imbalances» [41: 3].

As regards the reforms of international organizations to give more effective representation to poor countries, there is also an urgent need for a reform of the *World Labour Organisation*. This would mean overcoming the weak position held today by the International Labour Organization and would give workers all over the world an institution that is vested with decision-making powers on a par with the IMF, WB and WTO that have authority over goods, services and capital.

This new institution, backed by the appropriate democratic mechanisms, should have the power to define rules in order to avoid, among other things, the conflict that occurs between workers of developed and developing countries when enterprises, especially transnational corporations, practise social *dumping* or when poor people in developing countries try to improve their standard of living by emigrating to developed countries [3: 7].

The transfer of areas of national sovereignty, especially in monetary matters, does not free, however, nation states from their responsibility to adopt the new rules: governments of any developed country still have numerous policy instruments that they can use at discretion to combine efficiency and equity. Important schemes can be set up in areas such as taxation, education, health, income policy, public administration, etc.

Similar schemes can also be introduced in some of these areas in developing countries, as well as in the more specific fields of agrarian reform, the organisation of financial institutions, the construction of basic infrastructures, the definition of an appropriate trade policy, the introduction of labour legislation, etc. Moreover, the development of forms of democratic political organization should be encouraged as they can be of great importance in these countries in the endeavour to achieve greater efficiency and equity in their economic systems [34: 183]. At the same time it must be remembered how fundamental it is for every country, no matter how big it is, to find a collocation in a regional context in order to face world competition in a stronger position.

Indeed, my own strong preference for a future order is a kind of oligopolistic interdependence between large political-economic areas, but it is accompanied by a word of warning about the need to proceed with great foresight. We must never forget the inability of those who preceded us in «the short century», as the English historian Eric Hobsbawn has called it, when conflicts between nation states were resolved by the two World Wars.

List of Abbreviations

Andean Community	ANDEAN
Asia-Pacific Economic Cooperation	APEC
Association of South-East Asian Nations	ASEAN
Central European Free Trade Association	CEFTA
European Union	EU
Foreign Direct Investments	FDIs
Foreign Portfolio Investments	FPIs
Global Public Goods	GPGs
Gross Domestic Product	GDP
Human Development Index	HDI
International Labour Organization	ILO
International Monetary Fund	IMF
Istituto Nazionale per il Commercio Estero	ICE
Least-developed countries	LDCs
Mercado Comun del Sur	MERCOSUR
Multinational Companies	MNC
Non-governmental Organisations	NGO
North American Free Trade Agreement	NAFTA
Organization for Economic Cooperation and Development	OECD
Sistema Statistico Nazionale	SSN
United Nations	UN

World Health Organization	WHA
United Nations Conference on Trade and Development	UNCTAD
United Nations Development Programme	UNDP
World Bank	WB
World Trade Organization	WTO

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