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Introduction

> THE BOURGEOISIE HAS THROUGH its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe.... In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations.... The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.
>
> —Marx and Engels, 1848

The main thesis of this book is that contemporary globalization is bringing about a type of imperialism that differs fundamentally from those of the nineteenth and twentieth centuries.

The most significant difference is that the great capitalist firms, by becoming multinationals, have broken out of the confines within which they operated and that they exploited in the era of colonial empires. Nowadays capital accumulates in a global market. One of its dominant interests is therefore to dismantle all the barriers, obstacles, and political pressures that states can place in its way. Whereas in the past every nation's monopoly capital took advantage of its state's drive to imperialist expansion, because it could use this as a way to enlarge the domestic market, today the boundaries of national empires are seen as obstacles to commercial expansion and accumulation. And whereas monopoly capital previously had an interest in raising trade barriers and implementing mercantilist policies, which it saw as defenses against the competition of foreign firms, nowadays multinational capital votes for free trade and financial globalization. I call this new form of capitalist domination of the world *global imperialism.*

A second difference involves the relationship between state and capital. Their long-established symbiotic bond, based on the convergence of the state's interest in building political power and the interest of capital in creating a protected imperial market, is weakening. Big capital now places itself above the nation-state, toward which it tends to take an instrumental and conflicting attitude—"instrumental" because it seeks to bend the state to its own interests, both through the direct action of lobbies and the indirect action of "markets"; "conflicting" because the shift of its interests into a global space generates difficulties in national economies, especially advanced ones, which threaten the function of "national collective capitalist" previously played by states.

In the imperial regimes of the nineteenth and twentieth centuries, this function was *necessary* to provide national support for the interests of capital. And it was made *possible* by the inflow of surplus value from the colonies. States sought to distribute part of the surplus value among the various social classes in order to create a social block capable of drawing the

collective interests around those of the capitalists. Colonial imperialism thus generated significant labor aristocracies in the metropolises, since the money inflows from the colonies allowed some strata of the working class, especially skilled workers in manufacturing, to think they had a real stake in the maintenance of capitalism in the rich countries. This facilitated the formation of reformist parties, which sought to serve the interests of the proletariat by reconciling them with those of the "nation."

This function has now been lost, as the free movement of capital and goods places the workers in the South in competition with those in the North. Contemporary globalization has brought about a redistribution of income from wages to profits, which generates growing inequality throughout the world. Consequently, all countries are failing to achieve domestic social harmony, while the conditions for an exacerbation of class conflict increase. The state only maintains the role of "social gendarme": it must guarantee the legislative, judicial, and policing conditions to control labor and make it prepared for increasing exploitation. The demise of labor aristocracies and the consequent reorientation of labor policies toward repression is the third novelty of today's globalization. True, there was a great deal of labor repression in the United States and European countries even in the 1970s and 1980s, but the market liberalization begun in the 1990s exacerbated the process.

A fourth novelty involves the way in which the world is governed. In global imperialism the use of military force by the capitalist Center to put down and control the Periphery has certainly not ceased, but it is becoming of secondary importance compared to the regulatory mechanisms that work via the "natural" laws of the market. The global empire needs no emperor; nonetheless its *imperium* is becoming ever more effective, and this effectiveness is guaranteed by objective mechanisms against which populations seem defenseless. Even if they are in competition with each other, the innumerable heads that manage multinational firms univocally contribute to reinforcing these mechanisms because they are all pursuing the same objective: capital accumulation.

The global imperialism of multinationals, buttressed by neoliberal ideology, tends to establish in the world the Utopia *of stateless global governance.* This is the ideal of a world order that is not ruled by a state, but only by market laws. It was theorized by such neoliberal economists and political philosophers as Friederich von Hayek, Robert Nozick, and Milton Friedman against the traditional neoclassical liberalism of economists such as John M. Keynes, Arthur C. Pigou, Paul A. Samuelson, and Franco Modigliani. In the late 1980s it was actualized in the policy recipes of the Washington Consensus, and now is being more fully realized. The role of national states is under reconsideration. In a perfect world they should become "minimal states," mainly dedicated to their role of domestic "social gendarmes," reflecting the fact that workers worldwide often refuse to behave as simple sellers of a good. The markets would deal with all the rest, that is, with the "social balance" on a global scale.

However, three functions of central governance are necessary for the working of the global empire, and these demand the action of some great state or states on the international scene. The first of these functions is that *of global sheriff:* a role that needs to be filled by a military power capable of disciplining the countries that resist globalization and the opening of their markets to multinational capital. The second role is that *of global banker:* some governance mechanism must serve to produce the currency used as the main instrument of payment and international reserve. The third role is that *of driver of growth:* since capital accumulation in emerging and developing countries is led by exports, there must be at least one large advanced economy that grows by sizably increasing its imports. We shall see that the great powers have not always agreed on the fulfilment of these three roles over the last twenty years, giving us our fifth novelty.

To perform these three functions, the political actions of the traditional great powers need to be bent to serve the collective interests of multinational capital, rather than the interests of national bourgeoisies or the mass of a country's citizens. Thus, to be precise, one should talk of

sovereign/ess (rather than *stateless) global governance.* To the extent that states are the expression of the citizens' will, they are forced by markets to empty democracy of any substance and transform deliberative institutions into simple apparatuses for the formation of consent and repression of dissent. Global imperialism tends to kill democracy and it does so through the markets. To borrow the compelling metaphor of a leading multinational capitalist, "The market is sovereign." This is the sixth novelty.

A seventh novelty pertains to the role played by economic crises in disrupting and restructuring international political equilibriums and domestic social relations. On the one hand, the crises of globalization appear as explosions of capitalist contradictions, especially in the state-capital relationship. On the other, they accelerate the disciplinary processes to which the "markets" subject states, populations, and subordinate classes.

I seek to deconstruct a pervasive ideology that has managed to confound a large part of critical thought: that globalization is a panacea for all the economic ills of the world, a process that will boost development and increase well-being, reducing poverty and inequality in all countries that open up to international trade. The first chapter is dedicated to unmasking this myth.

The reality behind the mask is imperialism, today taking on a new form, one for which the analytical tools of twentieth-century imperialism theory are only partially useful. The second chapter develops the idea that contemporary globalization is establishing an entirely new form of domination, global imperialism, the projection of big capital onto what Marx called the "world market."

The third chapter explores this issue in greater depth, studying the disciplinary mechanisms that globalized capital sets in motion, both directly and indirectly, in the markets for goods, finance, and ideologies, as well as by waging war and terror. These mechanisms take an "organic" form. They do not derive from the intentional actions of a sovereign authority. Instead, they consist of certain feedback processes that emerge as the unintentional effects of the actions of many heterogeneous players.

The fourth chapter presents the principal actors on the global stage: multinational firms and nation-states. A section is dedicated to three major international organizations: the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organization (WTO). I argue that multinational firms are the primary and states the secondary actors. The former, by operating in a regime of oligopolistic competition, transform markets into instruments for the coercion of political and social powers. As a consequence, the policy autonomy of nation-states turns out to be rather limited. Finally, it appears that despite being constituted as creations of the states the international bodies in reality play at the service of the multinational firms.

The fifth chapter describes the great crisis of 2007-2013, highlighting above all how its eruption was brought about by the policies of financial market deregulation in the United States and monetary union in the European Union (EU). The crisis has turned out to be W-shaped (dip-recovery-dip-recovery). At present we are perhaps at the beginning of the second recovery, but it seems that the governments of the major countries have not yet succeeded in finding a way out of the basic difficulties that brought about the crisis, so much so that some observers fear a third dip.

The crisis, which is an intrinsic phenomenon of capitalist accumulation, is also one of its most effective disciplinary mechanisms. In the sixth chapter, I explain the present crisis as a process that restores the domination of capital and its markets over politics. The real causes of the great crisis are to be sought in the effects of globalization on the distribution of income in advanced countries. The prolonged declining trend in the wage share has depressed their economies. The governments of some great countries—those with archaic imperial ambitions, especially the United States and Germany—have adopted economic policy schemes aimed at countering or politically exploiting these effects. For a while they were successful. In the United States, a politically engineered speculative bubble boosted GDP growth. In Germany, the single

currency created a German mercantilist empire in Europe that is striving to compete with the dollar on global markets. Yet, in the end, the "markets" have thwarted those schemes, triggering the crisis.

Finally, chapter 7 focuses on interstate rivalries, arguing that they can no longer be explained as irreconcilable inter-imperialist contradictions. Instead, they are produced by the geopolitical ambitions of the great powers' ruling classes. Those ambitions have been only partially conducive to the working of contemporary capitalism. Mostly, they produce disorder and instability. In this chapter I interpret the crisis as the climax of a period of transition from old forms of imperialism to global imperialism. Like the economic turmoil between the First and Second World Wars, the present depression is marked by a striking disarray in international relations. And like the crisis that started in 1929, the one ignited in 2007 has revealed the need to reform the system. Therefore, I conclude by portraying a scenario of the resolution of the crisis in terms of a possible reshuffling of the relationships among the great powers and a reordering of the international payment system.

The theory I develop in this book describes a system of global domination by capital that is still far from full realization, although the economic trends of the last twenty years show it is rapidly taking hold. The present great crisis may accelerate this process and bring to light what will emerge as the fundamental contradictions of global imperialism. It is not a question of inter-imperial rivalries, which will certainly continue to exist as consequences of the former great powers' nationalist policies, but a question of class opposition between workers and • capital, and between the Center and Periphery of the empire. With globalization these two contradictions tend to blend into one and take on the form of an increasingly harsh and widespread class antagonism between multinational capital and the proletarians of the whole world.

—January 2014

Chapter 1
Mythologies in the New Millennium

> There is no such thing as national welfare.
>
> —Krugman, Obstfeld, and Melitz, 2012

The ideology of globalization is based on a series of cliches responsible for many grand narratives of contemporary capitalism. At the most abstract core of this ideology is a pure theory of international trade that seeks to demonstrate the positive effects of free trade on global welfare. In the present chapter, I criticize this doctrine[1] using a deconstructive method that has proven particularly effective in the field of pure economic theory. I will show that according to neoclassical economics, upon whose methodology the theory of comparative advantages is founded, the most conventional propositions on the beneficial effects of free trade are flawed.

Another common belief is that financial globalization is the principal cause of the wave of global economic growth experienced over the last twenty years. This opinion will be criticized simply by presenting the empirical evidence that disproves it.

Lastly, I will deconstruct the neoliberal rhetoric about the successes of the global fight against poverty. In recent studies many doubts have been raised regarding the complex problems involved in defining and measuring poverty. Besides recalling these, I present a selection of statistics on relative poverty, income inequality, and the wage share in national income, all of which unequivocally demonstrate the negative effects of globalization on the living conditions of the lower classes.

Two terminological clarifications are necessary before getting to the heart of the matter. One deals with the notion of the "multinational firm." I use the adjective "multinational" rather than "transnational," because the second, apart from giving the nouns it is associated with, "capital" or "firm," the sense of a holistic agent, tends not to convey the meaning of a group of dominant subjects with its head in the Center of the empire. The second clarification has to do with the North-South dichotomy, which I will use as a synonym of "Center-Periphery of the empire," even though the geographic borders do not exactly coincide with the economic and political ones. The categories of *Core* and *Periphery,* as well as that *of Semi-periphery,* were developed by Immanuel Wallerstein (three volumes, 1974-89) and various advocates of "dependence theory." In contemporary imperialism it is difficult to define the boundaries of the Center. Based on the notion of an "advanced economy," the Center could include the OECD countries. In a more restrictive definition, referring to the nations in which the parent companies of the greatest number of multinationals are based, the Center would be composed of the United States, the major European countries, and Japan. Developing and least-developed countries would belong to the Periphery. It is more difficult to define the Semi-periphery, which could include various emerging countries and those "in transition." However, many of these are almost ready to join the OECD, and some, given their spasmodic development, will soon join the Center. This is another reason why I will avoid using the notion of Semi-periphery, which in any case is not relevant to the argument I want to make. Clearly, with the passing of time, any overlapping of the North-South and Center-Periphery dichotomies will become blurred. Therefore I avoid using it in the last chapter and the conclusions, in which I look at the future - developments of global imperialism, and argue about the transformation of some major emerging countries into first-rate imperial centers.

Globalization and its Ideology

The last act in the GATT saga, the Uruguay Round (1986-94), led .to the birth of the WTO, officially on January 1, 1995. The original member states were 123, becoming 156 in 2012. The

WTO soon drew up a series of important multilateral agreements that helped smooth the way for multinational firms. Trade barriers rapidly fell by 40 percent and international trade boomed, coinciding with the start of a new wave of global accumulation and production. The old classification of countries into first, second, and third world became obsolete and a new one was substituted: advanced, emerging, and developing countries, with the addition of underdeveloped countries.[2] The long wave was driven by emerging countries, which had outstanding GDP growth rates of between 5 and 12 percent. The advanced countries, in contrast, had growth rates fluctuating between 0.5 and 3 percent.

Neoliberal thought celebrates the WTO's triumphs, taking every opportunity to attribute the miracle of global development to the adoption of free trade policies. In reality, as we shall see, the miracle took place thanks entirely to the emerging countries, and mainly as a consequence of the violation of certain free trade rules. The process of global accumulation was primarily the work of multinational firms, rather than an effect of neoliberal economic policies. Indeed, such policies, in the form of the advanced countries' fiscal, monetary, and trade programs, have produced more crisis than development.

Nonetheless, the ideology rapidly established itself and was accompanied by the rise of conservative and anti-worker ruling classes in all the main centers of power around the world, the administrations of advanced countries, the governing bodies of central banks, the WTO, the WB, and the IMF. In economic theory the Washington Consensus[3] was established, on the strength of which the IMF sought to impose its deflationary and pro-privatization policies on the whole world.

A systematic reconstruction of neoliberal ideology is not necessary here. Instead, I will focus and comment on the essential features of some of the most common arguments.

However, I first need to clear the field of two widespread myths that proliferated in the early 1990s. The revolution in information and communication technologies brought about a time-space compression of the world, enabling fast and extensive information and financial connections between production units and different decision-making centers that would have been unthinkable only thirty years previously. This process is supposed to have favored the birth of *transnational* corporations, which propelled themselves into global markets in order to counter the slowdown in demand and production caused by the entrance of many goods into the maturity phase of the product life cycle.

The big firms were supposed to lose their national roots and spread globally, adopting network-based rather than hierarchical organizational structures. This is the hypothesis on the *globalization of production.* They were also supposed to perform technological research activities in all their global production centers, no longer concentrating this research in their headquarters. Thus the process of innovation was supposed to be transformed into a polycentric international phenomenon. And this is the hypothesis of *technological globalization.*

The two beliefs were already discredited by empirical research in the 1990s. Ruigrok and van Tulder (1995), for example, set out to test the hypothesis of the *globalization of production* by studying the 100 biggest firms in the world, discovering that "with very few exceptions, executive boards and management styles remain solidly national in their outlook" (159). In other words, the great multinational companies have decentralized production but centralized control.

As to the second proposition, Patel and Pavitt (1991; 1994) found, in the vast majority of the 686 biggest manufacturing multinationals, that technological research was concentrated in the parent company and firmly based in the advanced countries in the North of the world. Similar results were obtained by Archibugi and Michie (1995), while Ruigrok and van Tulder's (1995) investigation showed that in the 100 biggest firms research continued to be carried out nationally. It is true that various emerging countries, headed by China, have made huge investments in R&D and now produce a growing number of patents. However, most of their innovations boil down to the improvement, adaptation, and creative imitation of imported technologies.

What counts, in any case, is not so much in which country the management and *advanced* technological research of the big multinationals are concentrated, but the fact that they remain located in the developed North. Innovations, then, are transferred, through direct investments, into various emerging and developing countries, where they produce a derivative form of technological research. As a consequence, the process of expansion of foreign direct investments involves a constant flow of profits from the South to the North, that is, from the Periphery to the Center of the imperial power of multinational capital.

The ideological propositions dealt with in the next three sections refer to *trade* globalization, *financial* globalization, and their effects on poverty and inequality. *Trade globalization* consists of lowering trade barriers and the consequent increase in the volume of international trade. This is a real trend but nothing substantially new. The drive to expand global trade began centuries ago and is intrinsic to capitalist development. Particularly strong in the second half of the nineteenth century, up to the First World War, it was put on hold in the inter-war period following the breakdown of the Gold Standard, the international payment system based on gold as the main reserve instrument and the role of the Bank of England as global banker. Nevertheless, by the 1950s trade globalization had already recommenced, and the current trend cannot be interpreted as a structural change or a qualitative jump. *Financial globalization* is also a long-term trend whose origins can be traced back to the nineteenth century. However, the acceleration that has taken place over the last thirty years has become a phenomenon of gargantuan proportions and constitutes a significant leap compared to previous centuries.

The effects of the two processes are clearly visible to anyone. Trade globalization has allowed many countries, especially emerging ones, to engage in export-led growth. On the other hand, financial globalization, through the abolition of controls on capital movements and the consequent rise in foreign investment, has helped to export the capitalist mode of production together with capital.

Therefore the facts are indisputable. What can be questioned are the neoliberal theories used to interpret them, especially the following three propositions:

1. Free trade makes it possible to exploit the comparative advantages of all economies and increase welfare in all countries that accept it.
2. The free movement of capital allows savings to go where they are needed to finance investments and thus fosters high growth rates while reducing growth volatility in all countries that open up to international financial flows.
3. The combined effects of the two types of globalization reduce inequality and poverty all over the world.

Comparative Advantages and Disadvantages

The theory of comparative advantages claims that each country should specialize in whatever production makes intensive use of its most abundant and least costly production factor. This factor cost need not be lower in absolute terms compared to other countries. It is sufficient for the *relative* cost to be lower, for example, the cost of labor in relation to that of capital. Specialization enables a country to efficiently produce the goods it is better equipped for, increase its exports, and consequently buy abroad the goods it is not well equipped to produce. All this would raise the quantity of goods produced, cut prices, and improve global welfare. The political and ideological implication is powerful: protectionism lowers total output and reduces welfare.

The contemporary theory, in the canonical version of Heckscher-Ohlin-Samuelson (HOS), is formulated using the general equilibrium model, and can be criticized for the marked lack of realism of its basic hypotheses.[4] But there is no need to gloat about this. Let's take the model as

a parable telling us something about reality, and check whether it tells the story well. As we shall see, the most edifying stories are inconsistent on the ground of its very methodology.

One of the first hurdles concerns the *distributive effects* of free trade policies. The theory is sometimes presented taking trade between individuals as a metaphor for that between nations. However, nations are composed of many individuals, and the effects of free trade can be felt in different ways by different subjects, enriching some and impoverishing others: "In the real world trade has substantial effects on the income distribution within each trading nation, so that in practice the benefits of trade are often distributed very unevenly." In fact, to put it clearly, trade "often hurts significant groups within the country in the short run, and potentially, but to a lesser extent, in the long run" (Krugman, Obstfeld, and Melitz, 2012, 80). Nowadays even many advocates of free trade recognize this limit, that "opening up to free trade makes somebody poor or poorer is possible, even probable, due to the reallocation of resources associated with it" (Bonaglia and Goldstein, 2008, 34).

What happens to workers manufacturing cars in Italy when the country starts to import "Italian" cars produced in Poland and Serbia? Many lose their jobs and many others will have to accept pay cuts. There is no guarantee that all the unemployed will find jobs in the Italian high-fashion clothing sector which, let us assume, will increase production and exports. There maybe an aggregate increase in income, for example, because of a marked profit rise in the high-fashion firms. The fact remains that some groups of individuals will suffer a loss of welfare. The theory maintains that free trade is beneficial in any case, as the increase in welfare of some will be greater than the decrease 'in welfare of the others. A compensation scheme for the worse-off individuals can then be designed, to return them to a welfare level no lower than the one they enjoyed prior to opening up to free trade. This is the most simplistic and misleading way of putting the question: the individuals who benefit from trade could compensate those who lose out, and still maintain some advantages, in which case international trade would *potentially* constitute a source of greater welfare for everyone.

Yet, is the existence of a simple *possibility* of compensation sufficient to be able to speak of an improvement in collective welfare? Certainly not. If some suffer losses due to the change, this will not result in a Pareto improvement.[5] At any rate, in such a case it would be difficult to convince the metalworkers who have lost their jobs due to the introduction of free trade that their troubles have grown but are in the national interest, especially if this coincides with the interests of the profits earners. Therefore Samuelson (1962) is right in claiming that the simple existence of a *potential* aggregate advantage does not allow us to draw any conclusions about the collective benefits of free trade in terms of welfare. Indeed, *effective* compensation needs to be provided before we can speak of a real advantage for everyone (Hahn, 1998, 13). Unfortunately; all compensation schemes generate changes in prices, incomes, and endowments that alter equilibrium conditions in an unpredictable manner, so there is no guarantee that the potential welfare improvement will be achieved after compensation. To all this we should add that compensation entails administrative costs, which may reduce welfare in an unpredictable way (Driskill, 2007, 10; Rodrik, 2011, 63-66). In conclusion, we can say that, bearing in mind its distributive effects, the simple proposition that "the introduction of free trade in a country improves collective welfare" is deceptive: either the aggregate advantage is purely potential, in which case it needs to be explained why more importance is given to the greater profits of some than to the losses of others; or the losses have to be effectively compensated, in which case it is impossible to say that an improvement in collective welfare takes place.

Moreover, free trade can generate redistributive effects not only within a single nation, but also between different nations. Let's take the case of a developing country, A, selling a forest of premium wood to a multinational based in an advanced country, B. The living conditions of the indigenous communities that inhabited the forest and lived on its products will deteriorate. Some, but not all, of them will be employed by the multinational as woodcutters. The firm will make an enormous amount of profits exporting the premium wood. If the multinational's profits

are higher than the net disadvantages of all the other economic actors in country A, an increase in aggregate income will take place. However, a global redistributive effect could also occur. If the multinational exports . its profits, the developing country could witness a real decline in its level of welfare. The comparative advantage theorist could maintain that there has been an overall increase in potential welfare, as the winner's profit increase outweighs the losers' losses. However, if this reduction is not adequately compensated with a transfer from country B to country A, it is difficult to maintain that the latter obtains a real advantage from free trade. On the other hand, if the transfer does take place, it is difficult to maintain that global welfare has really improved, considering that the transfer itself and its administrative costs will have unpredictable effects on the general equilibrium conditions. In conclusion, the proposition "free trade generates an increase in global welfare" is also deceptive.

Real life is often worse than theory predicts. It would be easy to present a host of examples of developing countries that, though increasing their exports through multinationals, find themselves with deteriorating balances of payments due to capital outflows or reduced export prices, as well as countries that obtain "compensation" loans at high interest rates that increase their foreign debt and therefore decrease their level of welfare in the long run.

There are other problems. The traditional theory of comparative advantages is based on a flex-price model, that is, on the hypothesis that prices respond promptly and completely to demand and supply changes. In this theory it is assumed that prices are fixed by an abstract auctioneer and all economic agents take them as parameters. But what happens when the prices of some goods are fixed by firms? This is not a purely hypothetical case. In reality the big multinational companies enjoy oligopolistic power and are capable of fixing the prices of their own goods. On the other hand, the prices of commodities, which are mainly produced in developing countries, are quite flexible and beyond the control of their producers. In such cases the theory of comparative advantage can no longer even claim that free trade produces a potential increase in welfare by reducing prices. Indeed, the opposite can occur. For example, country A raises its production of commodities and the volume of exports, but its trade balance does not improve because export prices fall due to the increase in supply. If the prices of the industrial goods it imports do not fall, country A could see its collective welfare deteriorate. If, as a result of this, its demand for industrial goods drops, country B, which exports them, could see its welfare increase less than required to compensate for the deterioration. Note that here I am not considering global redistributive effects. I am merely pointing out another theoretical flaw in the doctrine. In the presence of fixed prices, the neoliberal economist could not even maintain that free trade increases *potential* welfare.

The workings of the "labor market" are a case in point. General equilibrium theory assumes full employment and flexible wages. But what happens when the job markets don't work in this way? As an example, consider two advanced countries, G and R Labor productivity and the full-employment wage are higher in G than in R At a certain point the government of G adopts a restrictive fiscal policy that creates unemployment. Moreover, with the threat of further reducing employment and the enticement of placing workers' representatives on firms' boards of administration, it induces the unions to accept pay cuts. On the contrary, the unions of country F do not collaborate and do not accept pay cuts because wages are already very low. Having reduced labor costs, G will expand its exports toward F and, as aggregate demand has fallen, its imports will decrease. Thus G exports unemployment to R Many comparative advantage theorists may continue to use the general equilibrium model and maintain that, as the wage changes were accepted voluntarily by the workers (via the unions), both of the economies enjoy full employment. They will therefore continue to claim that international specialization always reflects differences in production costs. But will they be able to claim that free trade has brought about an increase in collective welfare, albeit potential? After all, the wage bill will have dropped in both countries (while firms' profits have probably grown in G). I will come back to this not

particularly imaginative example in the fifth chapter, to explain the current problems of the European economies.

Now consider another macroscopic drawback of general equilibrium theory: the no externalities assumption. It is maintained that there are no social effects that are not quantified by the markets, that is, cases in which private costs and advantages do not coincide with social costs and advantages. Let's go back to the example of the forest of premium wood acquired by a multinational. The private profits will be enormous and will mainly be collected by the multinational itself. However, the markets will not be capable of valuing the environmental damage; its social cost will not have a price and the multinational will not be obliged to pay for it. The community will bear a welfare loss. There is no guarantee that, if this disadvantage is calculated against the net private advantage produced by free trade (if indeed there is any), the change in potential welfare will still be positive. The neoliberal economist comes unstuck when faced with externalities.

Technological change exemplifies a particular case of externalities that is also overlooked by comparative advantage theory. This theory usually assumes that technology is given, known, and accessible to everyone. There are no economies of scale, age, scope, no learning by doing, no endogenous improvements in human capital, and no endogenous technical progress. On these assumptions, it seems easy to demonstrate that Portugal would benefit from specializing in wine production, while England specializes in cloth production. However, if the production of cloth prompts increasing returns to scale, investments in scientific and technological research, and human capital growth, it is difficult to argue that Portugal will benefit from opening up to free trade. In a long-run view, adopting protectionist policies to favor the development of an industrial sector may be more profitable. In the short run Portugal may produce cloth at higher prices than England, but in doing so it could foster the growth of human capital and the technological know-how that would subsequently allow it to manufacture many products at lower costs than those imported from England. Neoliberal economists have serious difficulties countering such assertions. For example, they cannot deny the existence of an optimum tariff capable of coping with an internal market failure better than free trade.

Financial Globalization and Development

Given the lack of realism of comparative advantage theory, and given the long series of caveats that need to be raised when proposing it, few neoliberal economists promote it to the general public and the political classes. It is nevertheless taught in all universities, presumably for its moral principles and character-building properties.

In constructing an ideological hegemony, the free movement of capital is a more frequently used and apparently less controversial propaganda tool, as it evokes the miraculous effects *of financial* globalization. Instead of focusing on the international trade of goods, which, according to the theory, depends on differences in endowment and production costs, the focus shifts to capital flows, which depend on arbitrage operations on asset returns. And instead of speaking of welfare, which is difficult to measure, it deals with the "easily" quantifiable concepts of gross domestic product and poverty.

The theory maintains that developing countries offer great investment opportunities but, given their low levels of per-capita income, suffer from a chronic lack of savings. If these countries liberalize capital movements by allowing multinationals to invest in them under the same conditions as national firms and then export profits without any obstacles, the savings required to fund growth will come from the advanced countries. Moreover, foreign direct investment will bring with it technology transfer, which will pump up total factor productivity. GDP growth would consequently rise. The global liberalization of capital markets would also allow savers to diversify their risks, leading to the convergence of interest rates, which is a sign of improvement in the efficiency of resource allocation. A closed economy with great investment

opportunities and few savings would have high interest rates; financial liberalization would increase the availability of capital and lower interest rates, with significant advantages for development. Lastly, the free movement of capital has been claimed to have beneficial effects on currency markets, preventing the misalignment of exchange rates. In this case, liberalization means abandoning fixed exchange rate systems. Governments that renounce control over exchange rates would gain a degree of freedom in their implementation of economic policies. By exploiting currency depreciation, for example, they could loosen external constraints and adopt autonomous monetary policies to support growth (Rodrik, 2011, 116). For all these reasons the free movement of capital on a global scale would favor development.

Alas, the myth of a positive correlation between financial globalization and growth has been resoundingly falsified by empirical research. Rodrik and Subramanian (2009) showed that between 1970 and 2004 the correlation did not exist in a sample of 105 countries. Obstfeld (2009) came to a similar conclusion.

This is not entirely surprising. In a study commissioned by the IMF, Kose, Prasad, Rogoff, and Wei (2006) reviewed forty-three studies published between 1994 and 2006, reaching the conclusion that "the majority of empirical studies are unable to find robust evidence in support of the growth benefits of capital account liberalization"(4).[6]

How can this be true? Wasn't the world in the peak of a long upswing in 2006? And weren't GDP and global production booming? What about the resounding successes of emerging countries? And wasn't this all coinciding with a strong tendency to lower trade barriers and remove controls on capital movements?

All these rhetorical questions would imply a positive answer, which demands clarification. There is no doubt that lowering trade barriers at a global level stimulates international trade and enables many countries to benefit from export-led growth. But this phenomenon is the result of free trade, not financial liberalization. It is brought about by the effects that a growing global demand for imports has on the effective demand of exporting countries and the consequent activation of increasing returns to scale at industry and firm level.[7] Moreover, this kind of growth only occurs in some countries, not all those that open up to international trade.

hi many developing countries the abolition of trade barriers can slow growth, and the abolition of controls on capital movements can exacerbate the situation. This mainly occurs in countries that have not launched adequate processes of industrialization. In these economies the direct investments of multinationals result in the hyper-specialization of production. Once they have agreed to participate in the international division of labor as producers of commodities, such countries tend toward monocultures and manage to intensify their exports by focusing on the supply of a few natural resources or agricultural products. Yet their balance of payments does not always improve and often experiences long phases of deterioration both because the prices of commodities are determined by markets in which the producers do not enjoy oligopolistic positions (unlike the producers of manufacturing goods), and because the profits made by multinationals in their countries are systematically exported. All this causes long cycles of foreign debt, leading to profound crises and growth slowdowns.

In most emerging countries, on the other hand, opening up to international trade was preceded by a long period of transformation in which their governments guided modernization and industrialization. They achieved this through investment-oriented industrial policies, protectionist policies targeted at favoring import substitution, and the development of a strong industrial sector, social policies aimed at training human capital, and supporting scientific and technological research, and so on. A classic example is China, which joined the WTO only in 2001, following half a century of forced and planned industrialization.[8]

Once open up to foreign trade many emerging countries continue to politically guide development in defiance of free trade theories. This has been done, for example, by adopting strategic trade policies to control and channel trade flows and foreign direct investments with the aim of favoring the formation and expansion of national firms in technologically advanced

sectors.[9] Moreover, exchange rate policies have been aimed at artificially increasing international competitiveness.

A consistent group of emerging countries propped up the growth in global production before the 2007-13 crisis. Without them, the world would have been in the midst of a deep depression rather than a long wave of development in the decade preceding the crisis, given the tendency to stagnation of advanced countries and the growth volatility of developing and least-developed countries. It is clearly wrong to attribute the benefits of this type of development to financial globalization. On the contrary, such growth is explained by some violation, and even opportunistic exploitation, of the free trade rules by most emerging countries: certainly not by comparative advantages, and least of all by financial liberalization. Comparative advantages cannot take the credit; emerging countries manage to benefit from the expansion of international trade only because, by refusing to specialize their production, they adopt similar industrial structures to those of advanced countries. Nor can the merit be of financial liberalization, as the flows of both direct and portfolio investments in such countries are shrewdly controlled by political authorities.

In some cases, though, there does seem to be a positive correlation between financial globalization and growth. Even so, it has been observed that in such cases "it is perfectly possible (indeed likely) that the causation goes the other way, from faster growth to [financial] integration" (Wolf, 2005, 283).

Another "strong point" of contemporary free trade ideology lies in the argument that financial globalization contributes to reducing growth volatility, lessening the frequency and intensity of crises. The explanation goes as follows: as the flow of savings that serves to finance investments in any single country no longer depends on local economic conditions alone but is fed by global wealth, growth will be less exposed to national shocks (famines, uprisings, political errors, etc.). International finance would perform a risk-sharing function, could hedge against the idiosyncratic risks of every single country, and mitigate the destabilizing effects of crises.

It is amusing to witness the joy of Kose, Prasad, Rogoff and Wei (2006) when they reveal that empirical research has brought to light a decrease in growth volatility during the globalization era. Even more so if we look at the date of publication of their survey: the eve of the crisis that began in 2007. Would empirical research still show such impressive results if it were conducted after one of the greatest crises in the history of capitalism? In answering this question, we should reflect on the fact that financialization played a key role in the explosion and international spread of the crisis. What free trade theory seems to ignore is that though financial globalization may help to provide some hedging against idiosyncratic risks, increasing international financial integration still exposes many countries to systemic global risks and makes them vulnerable to the endogenous shocks of the global economy (speculative bubbles, financial crashes, chain bankruptcies, etc.).

In any case, the empirical evidence of lower volatility prior to the great crisis does not appear to be particularly solid. Leaven and Valencia (2008) brought to light the following historical facts: 124 banking crises, 208 currency crises, and 63 sovereign debt crises occurred between 1970 and 2008. Eichengreen and Bordo (2002) demonstrated that crises were twice as frequent in contemporary globalization as in the period of globalization prior to 1914. Reinhart and Rogoff (2009) assessed the existence of a clear overlap between the historical series of banking crises (from 1800) and the series of increases in capital mobility, deducing that the second phenomenon caused the first. Bush, Farrant, and Wright (2011) discovered that though 0.1 banking crises per year, 1.7 currency crises, and 0.7 external defaults occurred in the Bretton Woods era (1948-72), in the years 1990-2000 there occurred 2.2, 5.4, and 1.8, respectively.

All this explains why the existence of a positive correlation between financial globalization and growth cannot be proven: because it does not exist. The reason maybe that the liberalization of capital movements, by increasing financial instability, dampens growth in the

long run. Even if the inflow of foreign capital can feed a country's prosperity during boom phases by raising direct investments, credit availability, and optimistic expectations, when the crisis blows up, the flight of capital has the opposite effect and exacerbates production slumps. It has been estimated that a currency crisis reduces GDP by an average of 8 percent, and that a currency crisis coupled with a banking crisis can reduce it by 18 percent. The causal nexus is easily identifiable, as it has been "proved that banking crises are more probable and frequent when countries open up to international capital movements" and that the former phenomenon is preceded by the latter (Bonaglia and Goldstein, 2008, 63-64). To conclude, it could be said the main reason why financial globalization does not foster growth is that it feeds international speculation. In a speculative climate portfolio investments are destabilizing being *markedly* pro-cyclical, and therefore have little effect in boosting growth *trends* (Calvo and Reinhart, 1999,2001; Wolf, 2005,283).

Poverty and Inequality

Over the last fifteen years, intense debate and an important field of research have developed on the issue of globalization's effects on income distribution.[10]

One of the most exciting assertions made by neoliberal ideology is that globalization has made a decisive contribution to reducing the number of people living in poverty. The theory is simple. States that liberalize trade and capital movements obtain access to global markets. They can attract private investments, as well as international aid and funding from the IMF and WB, and can export to rich advanced countries. Thus they foster economic growth. Even if the investments, aid, and funding do not go directly into the pockets of the poor, the growth in income and wealth rapidly spreads to the whole of society, according to the "trickle-down" fable, as the increased production creates new jobs, and technologies imported with the FDI boost productivity.

The statistics seem unequivocal.[11] In about thirtyyears the number of poor people (with an income lower than $2 per day) has fallen slightly: from 2.585 billion in 1981 to 2.471 billion in 2008. The percentage of poor people out of the total global population has fallen more noticeably: from 69.9 percent to 43 percent. The number of extremely poor people (with an income lower than $1 per day) has decreased even more, both in absolute terms, having passed from 1,545.3 million to 805.9 million, and as a percentage, from 41.6 percent to 14 percent (Chen and Ravaillon, 2012,4-6).

World Bank studies seek to measure *absolute* poverty, understood as "an *inability* to attain a *minimal standard* of living" (World Bank, 1990). People who are incapable of satisfying their primary needs, from housing to food, from clothing to health, are considered poor. Herein lies a first problem. This definition should prompt the adoption of multidimensional measures of poverty,[12] and the use of a *direct method* of measurement that takes into account the basket of goods needed to satisfy basic needs. However, this would make it difficult to measure and survey poverty, and use it to support a superficial ideology. Therefore many prefer to simplify the problem by defining *a. poverty line* in terms of income. They also propose adopting an *indirect method,* known as the *budget standard approach:* using market values, the basic consumption basket is transformed into the level of income necessary to buy it. The many dimensions of poverty are thus reduced to a number, a quantity of dollars.

Nevertheless, the poverty threshold cannot disregard the general living conditions of a society, its wealth, mean income, models of consumption, technology, social institutions, welfare systems—in short, the commonly accepted norms and practices of social decency (Borghesi and Vercelli, 2005, 205). So the same poverty line cannot be adopted for all societies and all periods, as the composition of a basket capable of fulfilling basic needs varies in place and time (Townsend, 1979). The income of a poor person today could have given him a middle-class lifestyle fifty years ago. The income of a poor North American today would allow him or her to

live a more than decent life in Burkina Faso. Someone living in the Amazon rainforest will be able to satisfy his housing, clothing, and food needs with a much lower monetary income than an inhabitant of New York. Thus if poverty has to be measured by a synthetic index, it would be better to define it in relative terms, that is, in terms of distance from the mean or median income of any given society. In other words, there are two options: either *absolute* poverty is measured in terms of ability to fulfil basic needs, in which case a multidimensional definition needs to be adopted and a spatial and temporal context provided (Sen, 1983, 155), or a synthetic index of income is used and the notion *of relative* poverty has to be adopted.

Anyone who does not accept this methodological choice can justifiably be suspected of bias. Economic growth in itself (without a reduction in inequality) does not contribute to reducing relative poverty (Ravallion, 2004, 47). This does not thrill those who maintain that globalization leads to a drop in the number of poor: hence their preference for the notion of absolute poverty. On the other hand, if the latter is contextualized in space and time, it may transpire that there are poor people in rich countries too. To detect them, a high-income threshold would need to be set. But the higher the threshold, the lower the rate of decline in poverty: an increasing trend could even emerge. The thresholds recently used by WB researchers to define poverty and extreme poverty ($2.5 and $1.25), although higher than those used a few years ago ($2 and $l), are still so low that there would appear to be no poor people in the whole of Europe and North America. Certainly, global poverty measured in this way is much lower and decreases more rapidly than real poverty.

To justify the setting of a decontextualized threshold, it is sometimes claimed that contextualization would lead to different thresholds being set for different countries, rendering international comparisons impossible. The World Bank began collecting data based on national poverty lines, but subsequently turned its attention to global poverty, using a universal income threshold. Its purported aim was to permit international comparison and aggregation. However, many comparisons can be made in terms of mean income, inequality indexes, or the like. Why should it be necessary to perform comparisons in terms of absolute poverty? Wouldn't it be better to stick to different statistics for different countries in order to see how the number of poor people evolves in each of them?[13]

On the other hand, if, as they claim, the threshold should be the same for the whole world, it would have to be low enough to detect poor people in the poorest countries in such a way that not (almost) all the inhabitants of those countries are considered poor. But why should people with incomes near the mean in poor countries be considered not poor, if they earn less than poor people in a rich country? Obviously it is because the assessment of poverty is contextualized. In other words, a very low and non-contextualized threshold is set in order to measure absolute poverty in the poorest countries (to reduce the level of poverty detected), yet an implicit contextualization is applied in order to justify that low threshold.

The theoretical problem of the very notion of "absolute poverty" is accompanied by other conundrums of a methodological nature. Many of these emerged from the extensive debate prompted by the periodic publication of World Bank data, and by some triumphalist declarations of its directors. There is no need to enter into the technical details here, but some information is necessary, if only to make it clear that the official records have been anything but acknowledged by the scientific community.[14]

The most important problem concerns the arbitrariness of the poverty threshold, as the World Bank made no effort to define the basket of goods necessary to fulfill basic needs. Critics have pointed out that the budget standard approach, that is, the definition of the basket of subsistence goods required to calculate minimum income, was not used to identify the threshold. Instead a money-metric methodology was adopted, thus making the index of absolute poverty absolutely arbitrary.

This first drawback leads to another—one that impinges on the methods used to homogenize monetary incomes at an international level. It is clearly not sufficient to use nominal

exchange rates to measure all incomes in terms of a single currency, the dollar, as the price level, and therefore the real value of a dollar, varies from one country to another. This is why an exchange rate adjusted for purchasing power parity (PPP) is used. PPP requires the use of price indices calculated on the basis of different baskets of goods in different countries. Clearly, a U.S. basket will differ from a Tanzanian basket. This means that the calculation of minimum income in many countries in terms of PPP dollars is influenced by irrelevant information, by the prices of goods and services that the poor never consume. More than that, the use of PPP dollars provides information that is not only redundant, but distorting. In fact, some goods and services have higher prices in the United States than, for example, in Tanzania. Therefore conversion with PPP taking into account all goods will artificially boost the purchasing power of Tanzanians, and the number of poor will be underestimated. More generally, it has been pointed out that the World Bank's efforts to adjust the methods of detection in response to criticism have instead contributed to increasing the arbitrariness of the datasets produced.[15]

Besides the methodological problems, others of an interpretative nature emerge as soon as an indiscreet question is asked. The neoliberal ideologists maintain that poverty diminishes thanks to the economic growth fostered by countries opening up to free trade. Now, let's concede that extreme poverty in poor countries has decreased over the last thirty years. But are we sure that this miracle was produced by globalization?

One particular phenomenon that should give us pause for thought is exhibited by the poverty time series when the Chinese data are removed: the decreasing trend becomes much less evident. These data-sets were produced by the World Bank in response to critics pointing out the significant contribution of certain big emerging countries, like China, in which poverty decreased more than in other nations. The critics suggest that it is deceptive to attribute the decrease in global poverty to globalization, as China is not particularly liberal in its industrial, trade, and currency policies, and systematically uses state capitalism and *dirigisme* to govern growth and counter the negative effects of free trade on its economy. If anything, China shows that resistance to neoliberal globalization is more effective than globalization itself in the fight against poverty. The filtered datasets displayed by the World Bank would seem to defy the critics as they show that global poverty diminishes even when the Chinese poor are excluded, albeit less rapidly. But this is a rather weak defense. For China is not the only country that seeks to politically control the markets: various other emerging countries do so too. To clarify this issue, World Bank researchers would need to classify the countries into two groups, pro- and anti-free trade, and then collect data on poverty separately for the two groups. It might emerge that most of the successes in the fight against poverty could be attributed to resistance to global liberalization.[16]

The concept of absolute poverty is intrinsically ideological. It conveys the idea that poverty is simply caused by the inability of Underdeveloped economies to counter a lack of resources with technical progress and capitalist accumulation. The backward economies are those that have proven incapable of launching the development process by opening up to modernization. In other words, poverty is presented as a product of the resistance of many traditional cultures to capitalist penetration. In breaking down that resistance, globalization would help the underdeveloped countries to begin the process of modernization by opening up their markets, and would therefore force them to reduce poverty.

What the concept of absolute poverty tends to obscure is the social dimension of the phenomenon: the fact that great masses of people can become poor *because* the privileged social classes get richer, and that the capitalist extraction of profit on a global scale can cause growing relative impoverishment in both advanced and developing countries. It is revealing that the minimum income thresholds used to quantify the phenomenon have been set so low that poverty in advanced countries cannot even be detected. Yet studies on *relative* poverty show it is increasing in many rich countries. For example, between 2005 and 2011 the percentage of the population "at risk of poverty"[17] in seventeen EU countries increased from 15.2 to 16.2

percent; in Germany from 12.2 to 15.8; in Spain from 19.7 to 21.8; and in France from 13 to 14 (Eurostat, 2012). In the United States, the percentage of the population with an income below the threshold of relative poverty grew from 11.1 percent in 1973 to 15 percent in 2011 (NPR, 2012).

The notion of "inequality" is less ideological, as it defines a phenomenon that is essentially relational, even though it does not measure class relations. Then again, debate on the measures and trends of inequality at a global level has been no less fierce than that on absolute poverty, hi this case, however, the prevailing opinions of the scientific community are not quite as triumphant, as serious empirical research has brought to light results that neoliberal ideologists find it hard to accept: globalization appears to have increased rather than reduced inequality.

A convincing and decisive result has recently been published by Milanovic (2012): between 1988 and 2005 the Gini coefficient of inequality rose from 0.68 to 0.71 and the Theil index from 0.87 to 0.98; the share of income of the top decile also rose, from 51.4 percent to 55.5 percent. Milanovic's result is convincing because it deals with the methodological difficulties in a satisfactory manner, and decisive because it confirms the findings of many other studies.[18] These indices refer to *global* inequality, to inequality between the incomes of all the citizens in the world.

Other researchers have instead focused on *international* inequality, that is, between the mean incomes of nations, which, in some studies, seems to show a decreasing trend in the era of globalization. Now, there is no use in being ironical about a concept of inequality that assumes all the citizens in every nation to have the same income. After all, this measure could serve to see whether globalization has contributed to increasing or decreasing the gap in per-capita income between advanced and developing countries. In any case, even here an interesting result comes to light. The Gini coefficient shows a trend of increasing inequality if the incomes of the various countries are not weighted with the ratio of their populations to the global population. If, instead, they are weighted, the trend becomes decreasing. Does this mean that globalization works in reducing the income gap between rich and poor countries? Alas, the result is less sensational when China and India are excluded from the global data. The trend of the weighted international inequality index without China and India shows the same increasing trend as the non-weighted overall index, which could be interpreted very simply. If China and India have higher mean incomes than most developing and least developed countries, the weighted international index tends to decrease because the population or mean income of those two countries grow more than in the others. This rekindles a suspicion: perhaps some of the successes in the fight against inequality, like those in the fight against absolute poverty, are due to the resistance of the governments of certain large countries to the negative effects of globalization, rather than to globalization itself.

One advantage of the concept of inequality, compared to that of absolute poverty, is that it does not depend on the definition of an arbitrary level of minimum income and can therefore also be applied to advanced countries. Interestingly, it appears that inequality has increased in the era of globalization in these countries too. An OECD (2011, 24) investigation showed that between 1985 and 2008 the Gini coefficient increased in seventeen out of twenty-two advanced countries, remained more or less constant in three and decreased in only two: Greece and Turkey.

It should also be pointed out that the Gini coefficient is an imperfect measure of inequality, as it does not take into account asymmetry in the distribution of income. It does not enable us to detect the most extreme forms of inequality. Interdecile and interquintile ratios may not be as elegant as the Gini coefficient and similar indices, but they are more intuitive and, above all, corne closer to grasping the class nature of the phenomenon.[19] In the United States, the ratio of the mean income of the wealthiest quintile to that of the poorest grew from 10.19 in 1968 to

14.74 in 2004, while the income share of the wealthiest 1 percent grew from 8.3 percent in 1981 to 16.08 percent in 2004 (Fiorentini and Montani, 2012, 87-8).

We get closer to an understanding of the class nature of inequality if we focus on labor. A recent International Labor Organization study (ILO, 2008) reviewed seventy-three countries for which reliable data are available, bringing some impressive phenomena to light. For instance, the ratio of the top manager-to-worker's mean income in the fifteen biggest companies in the United States rose from 360 in 2003 to 500 in 2007.

The trend of the wage share in national income is also highly significant. This is an indicator of worker exploitation: the lower the share the greater the exploitation. Revealingly, in fifty-one of the seventy-three countries the share has fallen in the last two decades. In Latin America and the Caribbean it fell by thirteen points between 1993 and 2002, in Asia and the Pacific by ten points between 1985 and 2002, and in advanced countries it fell by nine points between 1980 and 2005. A decreasing trend was registered in the majority of countries,[20] and the fall was particularly rapid between the early 1980s and the start of the new millennium (ILO, 2008,1-6).

I must conclude by saying that after about fifteen years of research and debate the arguments of the neoliberal ideologists have been largely discredited by empirical evidence. The data on absolute poverty, despite being flawed by measurement methods and by the setting of arbitrary thresholds, show that the decrease in poverty in the era of globalization has been rather slight, and is mainly the outgrowth of countries that have adopted non-liberal policies. The data measuring *social* distribution show that the gap between the income of the privileged classes and that of the lower classes has grown, the wage share has fallen, and inequality and relative poverty have increased. And this has occurred almost all over the world, including in the advanced countries.

Notes

1. In Screpanti (1997), I outlined some criticisms of the "good globalization" ideology. Here I adjust my argument, taking account of various recent contributions, including Beck (2000), Anonymous Authors (2002), Stiglitz (2002), Ziegler (2002), Ellwood (2003), Dal Bosco (2004), Driskill (2007), Rodrik, (2011), Volpi (2013).
2. The UN defines these as Least Developed Countries. They include all nations with: an annual per-capita income of less than $905; a high rate of Human Resource Weakness; and high economic vulnerability. There are currently forty-eight such countries (thirty-three of which are African), with 880 million inhabitants. They represent 12 percent of the global population and less than 2 percent of the GDP.
3. Williamson (1989) uses this expression to summarize the political philosophy that emerged at the end of the 1980s in the wake of exchanges between the main leaders of the global economy. The consensus was built around the following principles: reduction of the degree of tax progressiveness in order to boost investment; broadening of the tax base to include less well-off social classes so as compensate for the reduction in tax revenue; liberalization of financial markets to lower interest rates; guarantee of equal treatment between foreign direct investment and national investment; deregulation of markets and privatization of state enterprises to foster competition; strengthening the protection of private property; liberalization of foreign trade; encouragement of economic sectors oriented toward exports; limitation of public budget deficits; abolition of state subsidies to achieve market transparency; reorientation of public spending toward the provision of the *minimum* services necessary to provide for the poor and foster development *(primary* education, *primary* health services, infrastructures). For a reconstruction of the genesis of the *Washington Consensus* see Beaud (1999) and Williamson (2004).

4. Here are some of the most bizarre. Markets are intertemporally and conditionally complete, that is to say, there are markets for any future good in any possible event. For example, an umbrella to be delivered on a particular day of next year in case it rains that day; prices are fixed by an omniscient auctioneer who operates in a logical time different from real time; information is complete and symmetric; technology is known and accessible to everyone; returns to scale are constant; transport and transaction costs are nil; production factors are fully employed; consumers have identical and exogenous preferences; no externalities exist; equilibrium is stable and unique. Particular problems arise when dealing with capital, which in most models is treated as a homogenous factor available in a given quantity. Only recently, prompted by the criticisms of various Sraffian economists (such as those I refer to below), have models been designed (for example, Samuelson, 2001) that take into account the use of produced capital goods and confirm the main conclusions of the HOS model *under very special hypotheses.* However, it has been demonstrated that under other hypotheses the introduction of heterogeneous capital with a uniform rate of profit in a constant growth model can lead to realistic results that are disconcerting for HOS theory. Opening up to foreign trade can, for example, produce losses instead of improvements in welfare, and a large country can produce all goods while a small one specializes in the production of a single good. For criticisms from the Sraffian school see Parrinello (1970; 2010), Steedman and Metcalfe (l973a; 1973b; 1974), Mainwaring (1974; 1975), Steedman (l979a, 1979b); Gram (2010), Kurz and Salvador! (2010).

5. The modern ordinalist approach does not allow for interpersonal comparisons of utility. Thus, even if a change were to produce a net monetary advantage in the aggregate (the greater profits of some exceeding the losses of the others), it would not be possible to say that an improvement in collective welfare had occurred. It is necessary to use the Pareto criterion to assess the aggregate effects of change: improvement occurs only when somebody is better off and nobody is worse off. The adoption of a cardinal measure of utility would complicate rather than solve the problem, as it would be impossible to conclude anything about aggregate welfare changes without knowing the utility functions of all the individuals. Nor could we resort to a simplifying assumption typical of general equilibrium models, that is, that all individuals have the same utility function. Suppose there is an increase in aggregate output, with the rich peoples income rising more than that of the poor shrinks. Given the assumption of decreasing marginal utility, the welfare improvement of the former might be lower than the welfare loss of the latter.

6. The four IMF researchers claim that this empirical evidence is slightly less apparent when research focuses on rnicroeconomic rather than macroeco-nomic effects. They live in hope, arguing that if things are not so good at the moment, it doesn't mean that they can't improve in the future. To help foster hope, they have developed a new growth model in which the positive effects of financial globalization are felt through some *"potential* collateral benefits" rather than through the traditional channels of savings and investments. Once a certain threshold effect has been triggered, these benefits should produce the desired positive results. As if to say that the causal link between financial globalization and growth has not been empirically demonstrated, at least for today, but there is a possible, *potential,* nexus and nothing to say that it couldn't become true in the future. The important thing is that governments act to favor the achievement of the threshold effects, for example, by encouraging the development of financial markets.

7. The last effect was brought to light by the *New Trade Theory andNew Economic Geography,* begun by Paul Krugman and developed in various more recent reformulations. See Krugman (1979; 1991), Brewer (1985), Helpman and Krugman (1985), Gandolfo (1998), Melitz (2003), Ottaviano (2010), Fujimoto and Shiozawa (2011), and Helpman (2011). These theoretical models follow heterodox approaches: neo-Keynesian, post-Keynesian, or Sraman. They adopt different combinations of the following hypotheses: increasing returns to scale, endogenous technical progress, underemployment of factors, centrality of multinational firms, imperfect or oligopolistic competition, fixed prices. They demonstrate that a country's endowment of factors, and especially of capital, *is path-dependent* and determined both by

historical events and by industrial policies; most trade is intra-industry and involves countries with similar production structures and factor endowment; multinational firms play an essential role in increasing production on a global scale.

8. Most emerging and developing countries have followed the same time scale. Prom the 1950s through the 1970s, protectionism and import substitution policies propped up forced industrialization. Between the end of the 1970s and the early 1980s, internal liberalization policies were implemented. In 1980 development began to accelerate and, for the first time, exports of manufactured goods overtook exports of agricultural products; in the early 1980s exports exceeded imports, and average tariffs began to decrease. In China and India growth rates jumped at the beginning of the 1980s, and accelerated in the 1990s. See Srinivasan and Tendulkar (2003), Rodrik and Subramanian (2005), Rodrik (2007), Krugman, Obstfeld and Melitz (2012).

9. *Strategic trade policy* was theorized to account for certain neo-mercantilist policies adopted even by advanced countries. It differs from previous theories of protectionism in that it assumes industrial markets are oligopolistic and economies of scale and age play a crucial role in creating competitive advantages for the first firms to open up a market. Strategic trade policies are implemented by governments wishing to favor the birth and expansion of national firms in industries where, given the large market shares of already established companies, there would be no space for new firms. See Brander and Spencer (1981; 1985), Spencer and Brander (1983), Dixit (1984), Krugman (1986), Milner and Yoffie (1989), Oately (2007).

10. Some significant contributions are Gallino (2000), O'Rourke (2001), Acocella (2004), Heshmati (2005), Anand and Segal (2007), Ferreira and Ravaillon (2008), ILO (2008), Atkinson and Brandolini (2009), Fiorentini (201l),FiorentiniandMontani (2012), Pizzuto (2012).

11. Among the most outstanding contributions extolling the successes of the global battle against poverty, see Bhalla (2002), Bourguignon and Morisson (2002), Chen and Ravaillon (2001; 2007; 2008; 2012), Collier and Dollar (2002), Dollar and Kraay (2001a; 2001b), Ravaillon (2001; 2004), Sala-i-Martin (2002; 2006).

12. An innovative multidimensional method of measurement has been developed by Betti, Cheli, Lemmi and Verma (2006), Lemmi and Betti (2006). Eurostat (2002) has used a multidimensional approach over the last decade or so, and even the World Bank has recently shown signs of wanting to move in this direction (Elbers, Lanjouw and Lanjouw, 2003; Betti, Dabalen, Ferre and Neri, 2013).

13. Some researchers claim that setting two thresholds—one for poverty ($2.50) and one for extreme poverty ($1.25) —helps contextualize measurements, as the first is suitable to measure the phenomenon in some countries (Latin America, Eastern Europe, and the Caribbean) with medium-to-low incomes, and the second to measure it in the poorest countries. If this were the case, though, the two thresholds should not be applied indiscriminately to all countries. The first should only be valid for medium-to-low income countries and the second only for the poorest nations.

14. For methodological criticisms, see in particular Wade (2002; 2004), Reddy and Pogge (2005; 2009), Reddy and Minoiu (2007), Reddy (2008), Himanshu (2009), Pogge (2010).

15. To deal with some methodological problems the World Bank has pledged to develop a PPP for the poor (PPPP). However, calculation of this index might involve a circular reasoning: to define a PPPP, the consumption of the poor needs to be measured. But in order to identify the poor, we first need to identify the poverty threshold, which in turn requires knowledge of the PPPP. The problem could be resolved by explicitly defining a basket of subsistence goods, using this as a basis to calculate minimum income with the indirect method, and then applying PPPP. But in this case different poverty thresholds should be accepted for every single country, as the baskets would vary according to the standard of living in each one. Another problem with PPP is that, if the same base year is always maintained, the data would be comparable in time, but their ability to account for the most recent situations would change, as consumption habits

evolve with the passing of time. To avoid wearing out the base, the World Bank adopted new PPP conversion factors with new base years. This produced new datasets that are not comparable with the old ones and, above all, make the new criteria inadequate to evaluate the old levels of poverty. There are further methodological difficulties. With the passing of time, not only have the base years changed, but so have the formulas used to construct the PPP indices (from the Geary-Khamis formula to that of Elteto-Koves-Szulc), as well as the sources used for their calculation (from the Penn World Tables to the International Comparison Program). The sample of countries selected to define the poverty threshold has also changed (in 1990 the minimum income was established by observing that of the eight poorest countries in the world; in 1993 the median of the minimum income often countries was used; in 2005 the mean minimum income in fifteen countries). Moreover, the threshold values have also been altered (for extreme poverty they increased from $ 1 to $1.08 then $ 1.25, while for poverty they escalated from $2 to $2.15 and $2.50). Lastly, it must be recalled that the data used for the various countries are not entirely homogeneous: in some countries they were taken from family surveys, in others from national accounting indicators, and in some cases from both. In some countries income was observed, in others consumption; in some actual prices and quantities were used, in others estimations; in some detection was carried out only in certain cities, in others throughout the country.

16. This kind of research would be very difficult, as it requires an evaluation of the extent to which policies are oriented toward free trade. An attempt in this direction was made by Dollar and Kraay (2001a; 2001b), who produced an econometric study of the correlation between poverty, growth, and globalization. They subdivided countries into globalizers and non-globalizers, and obtained an impressive result: the globalizers have succeeded in reducing poverty most, as their income has grown more than that of the non-globalizers. Even more impressive is that China is classified as a globalizes Rodrik (2000), commenting on a previous version of the paper, pointed out that the result obtained by Dollar and Kraay is determined by an arbitrary grouping of countries and that their methods of classification are flawed.

17. This is how European bureaucrats euphemistically define the conditions of the social strata with a disposable income below the threshold of relative poverty (set at 60 percent of the national median). It would seem that there are no poor people in Europe, only people *at risk* of becoming poor.

18. Other interesting research has been performed by Cornia (2003), Ulubasoglu (2004), Palma (2006), Goldberg and Pavcnik (2007), Dreher and Gaston (2008), OECD (2008), Qureshi and Wan (2008), Berg and Nilsson (2010), Celik and Basdas (2010), Berg and Ostroy (2011). Problems with the use of PPP and the choice of base years also arise in measuring inequality. Milanovic, to be sure, supplemented the above-mentioned indices (calculated with a 2005 base year) with others calculated with a 1993 base year. The trend remains ascending, although the values are lower. See also Milanovic (2002; 2009).

19. Sutcliffe (2004,26), for example, showed a case in which the Gini coefficient decreased from 0.67 to 0.63 between 1980 and 2000, while the ratio of the income of the richest 1 percent of the population to that of the poorest 1 percent rose from 216.17 to 414.57.

20. The exceptions are the eastern European countries, Russia, the Middle East, and North Africa, where the wage share has fluctuated around a flat trend.