Course Name	: Globalization & Economic Development
Course Code	: BIRD 126
Course Level	: Level 2
Credit Units	: 4 CU
Contact Hours	: 60 Hrs

Course Description
The Course is entitled to explain the meaning of economic globalization, human development index, analysis of the world economy, statistical indicators, discussion on human migrations, origin & background of colonization , acculturation, Deglobalization, analysis of financial market impacts.

Course Objective
- To equip students with knowledge of both social and economic development.
- To expose students to current globalization trends and the challenges involved.
- To help students analyze the impact of globalization on several aspect of development.
- To enable students learn the challenges that affect globalization trends.

Course Content
Introduction
- Meaning of Economic Globalization
- Similar definition of the Concept
- Human Development Index
- Emerging Markets
- Economy of the World
- Statistical Indicators

Human Migrations
- Definition of Human Migration
- Pre-Modern migrations
- Modern Migrations
- Theories of Human Migrations
- Population Transfer
- Issues arising from population transfer
- Cases of Population Transfer

Colonization
- Definition of Colonization
- Historical Colonization
- Hypothetical of Functional types of Colonization

Acculturation

- Definition of Acculturation
- Group foreign-origin acculturation
- Transculturation
- History of acculturation

Deglobalization

- Meaning of the term
- Measures of Deglobalization
- Background and causes of Deglobalization

Other related topics; Increased debt burden, financial innovation &complexity, Financial Markets impacts, Global contagion, regulatory proposals and long-term responses, alter-globalization, examples of alter-globalization as a movement

Assessment
Coursework 40%
Exams 60%
Total Mark 100%

Globalization and Economic Development

Economic globalization is the increasing economic integration and interdependence of national, regional and local economies across the world through an intensification of cross-border movement of goods, services, technologies and capital. Whereas globalization is a broad set of processes concerning multiple networks of economic, political and cultural interchange, contemporary economic globalization is propelled by the rapid growing significance of information in all types of productive activities and marketization, and by developments in science and technology.

Economic globalization primarily comprises the globalization of production and finance, markets and technology, organizational regimes and institutions, corporations and labour. While economic globalization has been expanding since the emergence of trans-national trade, it has grown at an increased rate over the last 20–30 years under the framework of General Agreement on Tariffs and Trade and World Trade Organization, which made countries gradually cut down trade barriers and open up their current accounts and capital accounts.[2] This recent boom has been largely accounted by developed economies integrating with less developed economies, by means of foreign direct investment, the reduction of trade barriers, and in many cases cross border immigration.

While globalization has radically increased incomes and economic growth in developing countries and lowered consumer prices in developed countries, it also changes the power balance between developing and developed countries

and has an impact on the culture of each affected country. And the shifting location of goods production has caused many jobs to cross borders, requiring some workers in developed countries to change careers.

History

International commodity markets, labor markets and capital markets make up the economy and define economic globalization.

Beginning as early as 4000 BC, people were trading livestock, tools, and other items. In Sumer, an early civilization in Mesopotamia, a token system was one of the first forms of commodity money. Labor markets consist of workers, employers, wages, income, supply and demand. Labor markets have been around as long as commodity markets. The first labor markets provided workers to grow crops and tend livestock for later sale in local markets. Capital markets emerged in industries that required resources beyond those of an individual farmer.

By the early 1900s, it was rare to come across a town that was not influenced by foreign markets—whether it be in labor, prices, or any other part of business. With advances in ship and rail transport and electronic communications, trade with other parts of the world became much easier. Towns were no longer limited to what they alone could produce and what nearby towns over could trade with them.

These advances in economic globalization were disrupted by World War I. Most of the global economic powers constructed protectionist economic policies and introduced trade barriers that slowed trade growth to the point of stagnation. This caused a slowing of world-wide trade and even led to other countries introducing immigration caps. Globalization didn't fully resume until the 1970s, when governments began to emphasize the benefits of trade. Today, follow-on advances in technology have led to the rapid expansion of global trade.

Three suggested factors accelerated economic globalization: advancement of science and technology, market oriented economic reforms and contributions by multinational corporations.

A reduction of transportation and communication costs were a key part of the growth of globalization. Since the 1930s, ocean shipping costs fell by half, airfreight by 85%, and telecommunications by 99%.

The GATT/WTO framework led participating countries to reduce their tariff and non-tariff barriers to trade. Governments shifted their economies from central planning to markets. These internal reforms allowed enterprises to adapt more quickly and exploit opportunities created by technology shifts.

Multinational corporations reorganized production to take advantage of these opportunities. Labor-intensive production migrated to areas with lower labor costs, later followed by other functions as skill levels increased.

The 1956 invention of containerized shipping, increases in ship sizes were a major part of the reduction in shipping costs.

On October 27, 1986, the London Stock Exchange enacted newly degregulated rules that enabled global interconnection of markets, with an expectation of huge increases in market activity. This event came to be known as the Big Bang.

Irreversibility

According to prominent Chinese economist Gao Shanguan, economic globalization is an irreversible trend due to the fact that world markets are in great need of science and information technologies. With the growing demands of science and technology, Shanquan states that with world markets take on an "increasing cross-border division of labor".

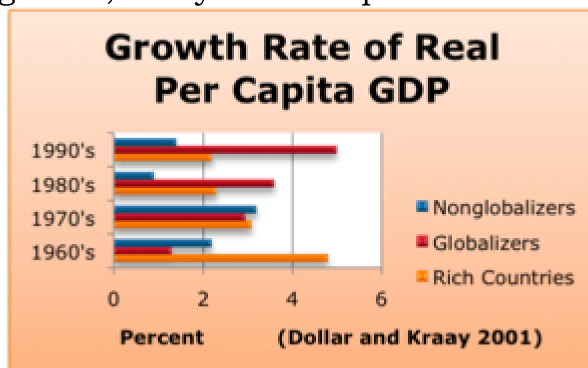
However, Princeton University professor Robert Gilpin argues that nations' economic policies have mistakenly slowed their own growth by resisting globalization, showing that globalization is not irreversible.[15] Antonio L. Rappa agrees that economic globalization is reversible and cites International Studies professor Peter J. Katzenstein.

Effects

Economic growth and poverty reduction

Economic growth accelerated and poverty declined globally following the acceleration of globalization.

Per capita GDP growth in the post-1980 globalizers accelerated from 1.4 percent a year in the 1960s and 2.9 percent a year in the 1970s to 3.5 percent in the 1980s and 5.0 percent in the 1990s. This acceleration in growth is even more remarkable given that the rich countries saw steady declines in growth from a high of 4.7 percent in the 1960s to 2.2 percent in the 1990s. Also, the non-globalizing developing countries did much worse than the globalizers, with the former's annual growth rates falling from highs of 3.3 percent during the 1970s to only 1.4 percent during the 1990s. This rapid growth among the globalizers is not simply due to the strong performances of China and India in the 1980s and 1990s—18 out of the 24 globalizers experienced increases in growth, many of them quite substantial."



Growth Rate of Real GDP per capita

According to the International Monetary Fund, growth benefits of economic globalization are widely shared. While several globalizers have seen an increase in inequality, most notably China, this increase in inequality is a result of

domestic liberalization, restrictions on internal migration, and agricultural policies, rather than a result of international trade.

Poverty has been reduced as evidenced by a 5.4 percent annual growth in income for the poorest fifth of the population of Malaysia. Even in China, where inequality continues to be a problem, the poorest fifth of the population saw a 3.8 percent annual growth in income. In several countries, those living below the dollar-per-day poverty threshold declined. In China, the rate declined from 20 to 15 percent and in Bangladesh the rate dropped from 43 to 36 percent.

Globalizers are narrowing the per capita income gap between the rich and the globalizing nations. China, India, and Bangladesh, once among the poorest countries in the world, have greatly narrowed inequality due to their economic expansion.

Multinational corporations

The spread of multinational corporations has accompanied the rise of globalization. One of the many changes they have brought to developing countries is increased automation, which may damage less-automated local firms and require their workers to develop new skills in order to transition into the changing economy, leaving some behind. The necessary education infrastructure is often not present, requiring a redirection of the government's focus from social services to education.

ECLAC states that in order to create better economic relations globally, international lending agencies must work with developing countries to change how and where credit is concentrated as well as work towards accelerating financial development in developing countries. ECLAC further suggests that the United Nations expand its agenda to work more rigorously with international lending agencies and that they become more inclusive of all nations. Key factors in achieving universal competition is the spread of knowledge at the State level through education, training and technological advancements. Economist Jagdish Bhagwati suggested that programs to help developing countries adjust to the global economy would be beneficial for international economic relations.

Several movements, such as the fair trade movement and the anti-sweatshop movement, claim to promote a more socially just global economy. The fair trade movement works towards improving trade, development and production for disadvantaged producers. The fair trade movement has reached 1.6 billion US dollars in annual sales. The movement works to raise consumer awareness of exploitation of developing countries. Fair trade works under the motto of "trade, not aid", to improve the quality of life for farmers and merchants by participating in direct sales, providing better prices and supporting the community.

Capital flight

Capital flight occurs when assets or money rapidly flow out of a country because of that country's recent increase in unfavorable financial conditions such as taxes, tariffs, labor costs, government debt or capital controls. This is

usually accompanied by a sharp drop in the exchange rate of the affected country or a forced devaluation for countries living under fixed exchange rates. Currency declines improve the terms of trade, but reduce the monetary value of financial and other assets in the country. This leads to decreases in the purchasing power of the country's assets.

A 2008 paper published by Global Financial Integrity estimated capital flight, also called illicit financial flows to be leaving developing countries at the rate of "$850 billion to $1 trillion a year."[24] But capital flight also affects developed countries. A 2009 article in *The Times* reported that hundreds of wealthy financiers and entrepreneurs had recently fled the United Kingdom in response to recent tax increases, relocating to low tax destinations such as Jersey, Guernsey, the Isle of Man and the British Virgin Islands.[25] In May 2012 the scale of Greek capital flight in the wake of the first "undecided" legislative election was estimated at €4 billion a week.[26]

Capital flight can cause liquidity crises in directly affected countries and can cause related difficulties in other countries involved in international commerce such as shipping and finance. Asset holders may be forced into distress sales. Borrowers typically face higher loan costs and collateral requirements, compared to periods of ample liquidity, and unsecured debt is nearly impossible to obtain. Typically, during a liquidity crisis, the interbank lending market stalls.

Inequality

While within-country income inequality has increased throughout the globalization period, globally inequality has lessened as developing countries have experienced much more rapid growth. Economic inequality varies between societies, historical periods, economic structures or economic systems, ongoing or past wars, between genders, and between differences in individuals' abilities to create wealth. Among the various numerical indices for measuring economic inequality, the Gini coefficient is most often-cited.

Of the factors influencing the duration of economic growth in both developed and developing countries, income equality has a more beneficial impact than trade openness, sound political institutions, and foreign investment.

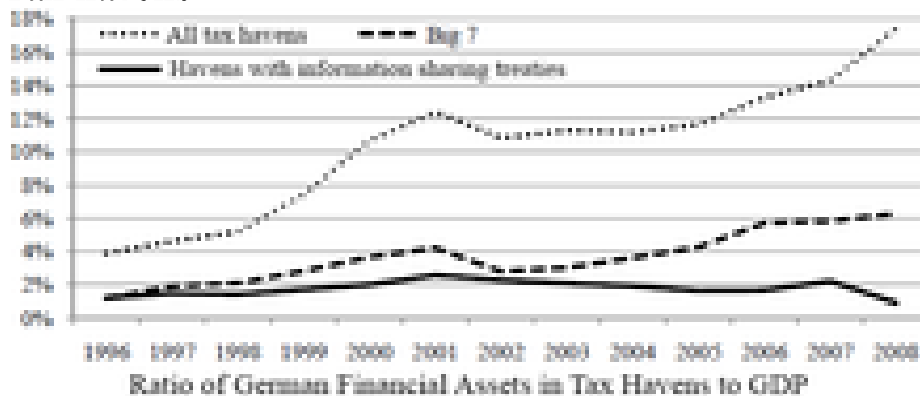
Economic inequality affects equity, equality of outcome and subsequent equality of opportunity. Although earlier studies considered economic inequality as necessary and beneficial,[30] some economists see it as an important social problem. Early studies suggesting that greater equality inhibits economic growth did not account for lags between inequality changes and growth changes.[32] Later studies claimed that one of the most robust determinants of sustained economic growth is the level of income inequality.

International inequality is inequality between countries. Income differences between rich and poor countries are very large, although they are changing rapidly. Per capita incomes in China and India doubled in the prior twenty years, a feat that required 150 years in the US. According to the United Nations Human Development Report for 2013, for countries at varying levels of the UN

Human Development Index the GNP per capita grew between 2004 and 2013 from 24,806 to 33,391 or 35% (very high human development), 4,269 to 5,428 or 27% (medium) and 1,184 to 1,633 or 38% (low) PPP$, respectively (PPP$ = purchasing power parity measured in United States dollars).

Certain demographic changes in the developing world after active economic liberalization and international integration resulted in rising welfare and hence, reduced inequality. According to Martin Wolf, in the developing world as a whole, life expectancy rose by four months each year after 1970 and infant mortality rate declined from 107 per thousand in 1970 to 58 in 2000 due to improvements in standards of living and health conditions. Also, adult literacy in developing countries rose from 53% in 1970 to 74% in 1998 and much lower illiteracy rate among the young guarantees that rates will continue to fall as time passes. Furthermore, the reduction in fertility rates in the developing world as a whole from 4.1 births per woman in 1980 to 2.8 in 2000 indicates improved education level of women on fertility, and control of fewer children with more parental attention and investment.[35] Consequentially, more prosperous and educated parents with fewer children have chosen to withdraw their children from the labor force to give them opportunities to be educated at school improving the issue of child labor. Thus, despite seemingly unequal distribution of income within these developing countries, their economic growth and development have brought about improved standards of living and welfare for the population as a whole.

Tax havens



The ratio of German assets in tax havens in relation to the total German GDP. The "Big 7" shown are Hong Kong, Ireland, Lebanon, Liberia, Panama, Singapore, and Switzerland.

A tax haven is a state, country or territory where certain taxes are levied at a low rate or not at all, which are used by businesses for tax avoidance and tax evasion. Individuals and/or corporate entities can find it attractive to move themselves to areas with reduced taxation. This creates a situation of tax competition among governments. Taxes vary substantially across jurisdictions. Sovereign states have theoretically unlimited powers to enact tax laws affecting their territories, unless limited by previous international treaties. The central feature of a tax haven is that its laws and other measures can be used to evade

or avoid the tax laws or regulations of other jurisdictions. In its December 2008 report on the use of tax havens by American corporations, the U.S. Government Accountability Office was unable to provide a satisfactory definition of a tax haven, but regarded the following characteristics as indicative of it: nil or nominal taxes; lack of effective exchange of tax information with foreign tax authorities; lack of transparency in the operation of legislative, legal or administrative provisions; no requirement for a substantive local presence; and self-promotion as an offshore financial center.
A 2012 report from the Tax Justice Network estimated that between USD $21 trillion and $32 trillion is sheltered from taxes in tax havens worldwide. If such hidden offshore assets are considered, many countries with governments nominally in debt would be net creditor nations. However, the tax policy director of the Chartered Institute of Taxation expressed skepticism over the accuracy of the figures.[43] Daniel J. Mitchell of the US-based Cato Institute says that the report also assumes, when considering notional lost tax revenue, that 100% of the money deposited offshore is evading payment of tax.
The tax shelter benefits result in a tax incidence disadvantaging the poor. Many tax havens are thought to have connections to "fraud, money laundering and terrorism." Ongoing investigations of illegal tax haven abuse have produced few convictions.[47][48] Accountants' opinions on the propriety of tax havens have been evolving, as have the opinions of their corporate users, governments, and politicians, although their use by Fortune 500 companies and others remains widespread. Reform proposals centering on the Big Four accountancy firms have been advanced. Some governments appear to be using computer spyware to scrutinize corporations' finances.

Red: U.S. corporate profits after tax. Blue: U.S. nonresidential business investment, both as fractions of GDP, 1989-2012. Wealth concentration of corporate profits in global tax havens due to tax avoidance spurred by imposition of austerity measures can stall investment, inhibiting further growth.[59]

Voices of developing countries

The Economic Commission for Latin America and the Caribbean (ECLAC) has proposed an agenda to support conditions for developing countries to improve their standing in the global economy.[60] However, the advantaged countries continue to control the economic agenda. Lechner and Boli state that the World Bank and the International Monetary Fund must give voice to developing countries.

Cultural effects

Economic globalization may impact culture. Populations may mimic the international flow of capital and labor markets in the form of immigration and the merger of cultures. Foreign resources and economic measures may impact different native cultures and may cause assimilation of a native people. As these populations are exposed to the English language, computers, western music, and North American culture, changes are being noted in shrinking family size, immigration to larger cities, more casual dating practices, and gender roles are transformed.

Yu Xintian noted two contrary trends in culture due to economic globalization. Yu argued that culture and industry not only flow from the developed world to the rest, but trigger an effort to protect local cultures. He notes that economic globalization began after World War II, whereas internationalization began over a century ago.

George Ritzer wrote about the McDonaldization of society and how fast food businesses spread throughout the United States and the rest of the world, attracting other places to adopt fast food culture.[65] Ritzer describes other businesses such as The Body Shop, a British cosmetics company, that have copied McDonald's business model for expansion and influence. In 2006, 233 of 280 or over 80% of new McDonalds opened outside the US. In 2007, Japan had 2,828 McDonalds locations.

Global media companies export information around the world. This creates a mostly one-way flow of information, and exposure to mostly western products and values. Companies like CNN, Reuters and the BBC dominate the global airwaves with western points of view. Other media news companies such as Qatar's Al Jazeera network offer a different point of view, but reach and influence fewer people.

Migration

“With an estimated 210 million people living outside their country of origin (International Labour Organization [ILO] 2010), international migration has touched the lives of almost everyone in both the sending and receiving countries of the Global South and the Global North” Because of advances made in technology, human beings as well as goods are able to move through different countries and regions with relative ease.

“The geography of contemporary globalization is related closely to the history of colonialism and imperialism even if this is not usually made explicit in globalization theory” Colonialism created links between various societies across

the world that encouraged some people to leave their original countries to work in another country. “Globalization theories have, by and large, neglected race and ethnicity in their accounts of the making of the new global order”. “International migrants facilitate globalization processes by linking together disparate peoples and places into an increasingly single, shared global political-economic context Those who are not separated from their families still have a desire to migrate because “knowledge of living standards and social conditions across countries has become increasingly more available, especially through travel; both the real and symbolic reduction of time and distance have created powerful incentives for people to move”. This impacts women the most because “from a gender perspective, we have witnessed the feminization of most migration flows, especially since the 1990s, with profound transformations in the structure of families and gender roles in the international division of labor”. Another reason for individuals to migrate is to make more money. Incomes in developed countries are far higher than in developing countries.

Economic union

An **economic union** is a type of trade bloc which is composed of a common market with a customs union. The participant countries have both common policies on product regulation, freedom of movement of goods, services and the factors of production (capital and labour) and a common external trade policy. When an **economic union** involves unifying currency it becomes a economic and monetary union.

Purposes for establishing an economic union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.

Economic union is established through trade pact.

List of economic unions

Stages of economic integration around the World (each country colored according to the most integrated form that it participates with):

Economic and Monetary Union (CSME/EC$, EU/€)

Economic union (CSME, EU, EEU/EAEU)

Customs and Monetary Union (CEMAC/franc, UEMOA/franc)

Common market (EEA, EFTA, CES)

Customs union (CAN, CUBKR, EAC, EUCU, MERCOSUR, SACU)

Multilateral Free Trade Area (AFTA, CEFTA, CISFTA, COMESA, GAFTA, GCC, NAFTA, SAFTA, SICA)

Additionally the autonomous and dependent territories, such as some of the EU member state special territories, are sometimes treated as separate customs territory from their mainland state or have varying arrangements of formal or de facto customs union, common market and currency union (or combinations thereof) with the mainland and in regards to third countries through the trade pacts signed by the mainland state.

Foreign direct investment

A **foreign direct investment** (*FDI*) is a controlling ownership in a business enterprise in one country by an entity based in another country.
Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the *Financial Times*, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control."
The origin of the investment does not impact the definition as an FDI, i.e., the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country.

Definitions

Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable. As a part of the national accounts of a country, and in regard to the GDP equation Y=C+I+G+(X-M)[Consumption + gross Investment + Government spending +(exports - imports)], where I is domestic investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.[2] FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. *Stock* of FDI is the *net* (i.e., inward FDI minus outward FDI) cumulative FDI for any given period. Direct investment excludes investment through purchase of shares.[3] FDI is one example of international factor movements A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country.Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control".[1] According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control." yes that is fact.

Theoretical background

According to Grazia Ietto-Gillies (2012), prior to Stephen Hymer’s theory regarding direct investment in the 1960s, the reasons behind Foreign Direct Investment and Multinational Corporations were explained by neoclassical

economics based on macro economic principles. These theories were based on the classical theory of trade in which the motive behind trade was a result of the difference in the costs of production of goods between two countries, focusing on the low cost of production as a motive for a firm's foreign activity. For example, Joe S. Bain only explained the internationalization challenge through three main principles, which are: Absolut cost advantages, product differentiation advantages and economies on scale. Further more, the neo classical theories where created under the assumption of the existence of a perfect competition. Intrigued by the motivations behind large foreign investments made by corporation from the United States of America, Hymer developed a framework that explained beyond the existing theories, why this phenomenon occurred, since he considered that the previously mentioned theories could not explain foreign investment and it motivations.

Facing the challenges of his predecessors, Hymer focused his theory on filling the gaps regarding international investment. The theory proposed by the author approaches international investment from a different and more firm specific point of view. As opposed to traditional macroeconomic-based theories of investment, Hymer states that there is a difference between mere capital investment, else known as portfolio investment, and direct investment. The difference between these two, which will become the corner stone of his whole theoretical framework, is the issue of control, meaning that with direct investment firms are able to obtain a greater level of control than with portfolio investment. Further more, Hymer proceeds to criticize the neoclassical theories, stating that the theory of capital movements cannot explain international production. yes that is fact Moreover, he clarifies that FDI is not necessarily a movement of funds from a home country to a host country, nor and that it is concentrated on particular industries within many countries and not vice versa (as would be the case if interest rates were the main motive for international investment). Another interesting observation made by Hymer in his theory, was that opposite of what was sustained by the neoclassical theories, foreign direct investment is not limited to investment of excess profits abroad. In fact, foreign direct investment can be financed through loans obtained in the host country, payments in exchange for equity (patents, technology, machinery etc.), among others. The previous criticisms lead Hymer to propose the three main determinants of foreign direct investment, taking into account imperfections in the market as a key assumption: Existence of firm specific advantages, their link to market imperfections, Removal of conflicts with rivals in foreign markets and propensity to formulate an internationalization strategy to mitigate risk.

1. Firm-specific advantages: Once domestic investment was exhausted, a firm could exploit its advantages linked to the market imperfections, which could appropriate the firm with: market power and competitive advantage. Further studies try to explain how firms could sell these advantages in the form of licenses.

2. Removal of conflicts: conflict arises if a firm is already operating in foreign market or looking to expand its operations within the same market. He proposes that the solution for this hurdle arose in the form of collusion, sharing the market with rival or to try and obtain direct control of production. However, it must be taken into account that a reduction in conflict through acquisition of control of operations will increase the market imperfections

3. Propensity to formulate an internationalization strategy to mitigate risk: According to his position, firms are characterized with 3 levels of decision making: the day to day supervision, management decision coordination and long run strategy planning and decision making. The extent to which a company can mitigate risk depends on how well a firm can formulate an internationalization strategy taking these levels of decision into account.

Hymer's importance in the field of International Business and Foreign Direct Investment can be summarized in the following reasons: first, he was the first to theorize the existence of Multinational Enterprises (MNE) and the reasons behind Foreign Direct Investment (FDI). He came up with an actual theory taking into account firm specific characteristics and not only macroeconomic principles as it was done before.

The second reason is that all following scholar theories about International Business after Hymer’s death were actually very influenced by his work. Indeed, he influenced several generations that add their part to the Hymer’s theory by discussing it, criticizing it or complementing it! In this way, his work set up the grounds of International Business theories. For example, the OLI theory (Ownership, Location and Internationalization) by John Dunning and Christos Pitelis takes over on Stephen Hymer framework but by focusing more on transaction costs. Moreover, “the efficiency-value creation component of FDI and MNE activity was further strengthened by two other major scholarly developments in the 1990s: the resource-based (RBV) and evolutionary theories" (Dunning & Pitelis, 2008) The third reason is that some of his predictions about concepts he explained in his thesis were visionary for the era and actually realized later on. We can take the example of his explanation about the power of supranational bodies such as IMF of the World Bank that enhance an unequal spreading of wealth and raise inequalities in a more general view. (Dunning & Piletis, 2008)

Types

1. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
2. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Methods

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

Forms of FDI incentives

Foreign direct investment incentives may take the following forms:[*citation needed*]

- low corporate tax and individual income tax rates
- tax holidays
- other types of tax concessions
- preferential tariffs
- special economic zones
- EPZ – Export Processing Zones
- Bonded warehouses
- Maquiladoras
- investment financial subsidies[8]
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects)

Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing.

- by excluding the internal investment to get a profited downstream.

Importance and barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita. The data available to confirm this are freely available.

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. The local population may be able to benefit from the employment opportunities created by new businesses. In many instances, the investing company is simply transferring its older production capacity and machines, which might still be appealing to the host country because of technological lags or under-development, in order to avoid competition against its own products by the host country/company.

Developing world

A 2010 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

China

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of FDI. In 2013 the FDI flow into China was $64.1 billion, resulting in a 34.7% market share of FDI into the Asia-Pacific region. By contrast, FDI out of China in 2013 was $18.97 billion, 10.7% of the Asia-Pacific share.

During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

India

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and

UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.
Nine from 10 largest foreign companies investing in India(from April 2000- January 2011) are based in Mauritius . List of the ten largest foreign companies investing in India(from April 2000- January 2011) are as follows --

1. TMI Mauritius Ltd. ->Rs 7294 crore/$1600 million
2. Cairn UK Holding -> Rs6663 crores/$1492 million
3. Oracle Global (Mauritius) Ltd. -> Rs 4805 crore/$1083 million
4. Mauritius Debt Management Ltd.-> Rs 3800 crore/$956 million
5. Vodafone Mauritius Ltd. – Rs 3268 crore/$801 million
6. Etisalat Mauritius Ltd. – Rs 3228 crore
7. CMP Asia Ltd. – Rs 2638.25 crore/$653.74 million
8. Oracle Global Mauritius Ltd. – Rs 2578.88 crore / $563.94 million
9. Merrill Lynch(Mauritius) Ltd. – Rs 2230.02 crore / $483.55 million
10. Name of the company not given (but the Indian company which got the FDI is Dhabol Power company Ltd.)

United States

Broadly speaking, the United States has a fundamentally "open economy" and low barriers to FDI.
U.S. FDI totaled $19 Billion in 2010. 84% of FDI in the United States in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada. A major source of investment is the real estate, the foreign investment in this area totaled $92.2 billion in 2013, under various forms of purchase structures (considering the U.S. taxation and residency laws).
A 2008 study by the Federal Reserve Bank of San Francisco indicated that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capita. Countries with fewer capital controls and greater trade with the United States also invest more in U.S. equity and bond markets.
In 2011, Rick Kimball, Gordon M. Goldstein, Daniel Zwirn, et al. created a study in behalf of Brookings Institution on the role and importance of foreign capital funds in the United States. The study reviews practices of Global Public Investors and recommends promoting of investment in U.S. infrastructure development.
White House data reported in 2011 found that a total of 5.7 million workers were employed at facilities highly dependent on foreign direct investors. Thus, about 13% of the American manufacturing workforce depended on such investments. The average pay of said jobs was found as around $70,000 per worker, over 30% higher than the average pay across the entire U.S. workforce.

President Barack Obama said in 2012, "In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring prosperity to our people."
In September 2013, the United States House of Representatives voted to pass the Global Investment in American Jobs Act of 2013 (H.R. 2052; 113th Congress), a bill which would direct the United States Department of Commerce to "conduct a review of the global competitiveness of the United States in attracting foreign direct investment". Supporters of the bill argued that increased foreign direct investment would help job creation in the United States.

Canada

Foreign direct investment by country and by industry are tracked by Statistics Canada. Foreign direct investment accounted for CAD$634 billion in 2012, eclipsing the United States in this economic measure. Global FDI inflows and outflows are tabulated by Statistics Canada.

United Kingdom

The UK has a very free market economy and is open to foreign investment. Prime Minister David Cameron has sought investment from emerging markets and from the Far East in particular and some of Britain's largest infrastructure including energy and skyscrapers such as The Shard have been built with foreign investment.

Russian Federation

- History of Foreign Investment Law

In 1991, for the first time, Russia regulated the form, range and favorable policy of FDI in Russia.
In 1994, a consulting council of FDI was established in Russia, which was responsible for setting tax rate and policies for exchange rate, improving investment environment, mediating relationship between central and local government, researching and improving images of FDI work, and increasing the right and responsibility of Ministry of Economic in appealing FDI and enforcing all kinds of policies.
In 1997, Russia starts to enact policies for appealing FDI on particular industries, for example, fossil fuel, gas, woods, transportation, food reprocessing, etc.
In 1999, Russia announced a law named FDI of Russian Federation, which aimed at providing a basic guarantee for foreign investors on investing, running business, earnings.
In 2008, Russia banned on FDI on strategic industries, such as military defense and country safety.

In 2014, president Putin announced that once abroad Russian investment inflows legally, it would not be checked by tax or law sector. This is a favorable policy of Putin to appeal Russian investment to come back.

- Structure of foreign investment in Russia

1. Direct investment: Investing directly with cash. Basically, investment more than 10% of the item is called Direct investment.
2. Portfolio investment: Investing indirectly with company loans, financial loans, stocks, etc. Basically, investment less than 10% of the item is called Portfolio investment.
3. Other investment: Except for direct and portfolio investment, including international assistance and loans for original country.

Free trade is a policy in international markets in which governments do not restrict imports or exports. Free trade is exemplified by the European Union / European Economic Area and the North American Free Trade Agreement, which have established open markets. Most nations are today members of the World Trade Organization (WTO) multilateral trade agreements. However, most governments still impose some protectionist policies that are intended to support local employment, such as applying tariffs to imports or subsidies to exports. Governments may also restrict free trade to limit exports of natural resources. Other barriers that may hinder trade include import quotas, taxes, and non-tariff barriers, such as regulatory legislation.

Features of free trade

Free trade policies generally promote the following features:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g., quotas on imports or subsidies for producers)
- Trade in services without taxes or other trade barriers
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others
- Unregulated access to markets
- Unregulated access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power
- Trade agreements which encourage free trade.

Economics of free trade

Economic models

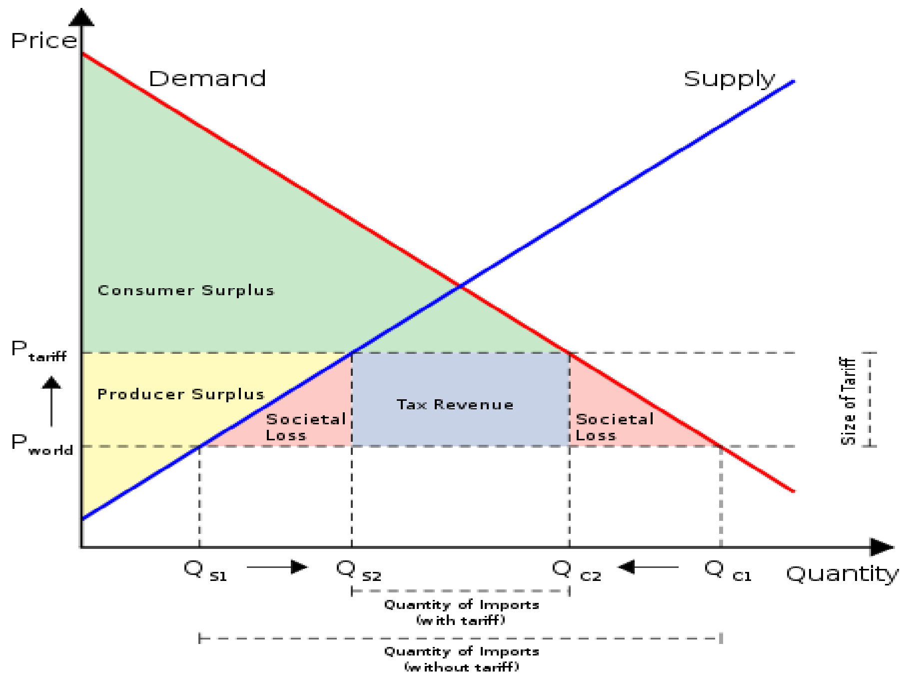
For more details on this topic, see Supply and demand.

Two simple ways to understand the proposed benefits of free trade are through David Ricardo's theory of comparative advantage and by analyzing the impact of a tariff or import quota. An economic analysis using the law of supply and demand and the economic effects of a tax can be used to show the theoretical benefits and disadvantages of free trade.

Currently, the World Bank believes that, at most, rates of 20% can be allowed by developing nations; but Ha-Joon Chang believes higher levels may be justified because the productivity gap between developing and developed nations is much higher than the productivity gap which industrial countries faced. (A general feature is that the underdeveloped nations of today are *not* in the same position that the developed nations were in when they had a similar level of technology, because they are weak players in a competitive system; the developed nations have always been strong players, although formerly at an overall lower level.

Counterarguments to this point of view are that the developing countries are able to adopt technologies from abroad, whereas developed nations had to create new technologies themselves, and that developing countries have far richer markets to which to export than was the case in the 19th century. If the main defense tariffs is to stimulate infant industries, a tariff must be high enough to allow domestic manufactured goods to compete for the tariff to be successful. This theory, known as import substitution industrialization, is largely considered ineffective for currently developing nations.

Disadvantages of tariffs



The pink regions are the net loss to society caused by the existence of the tariff.

The chart at the right analyzes the effect of the imposition of an import tariff on some imaginary good. Prior to the tariff, the price of the good in the world market (and hence in the domestic market) is P_{world}. The tariff increases the domestic price to P_{tariff}. The higher price causes domestic production to increase from Q_{S1} to Q_{S2} and causes domestic consumption to decline from Q_{C1} to Q_{C2}.

This has three main effects on societal welfare. Consumers are made worse off because the consumer surplus (green region) becomes smaller. Producers are better off because the producer surplus (yellow region) is made larger. The government also has additional tax revenue (blue region). However, the loss to consumers is greater than the gains by producers and the government. The magnitude of this societal loss is shown by the two pink triangles. Removing the tariff and having free trade would be a net gain for society.

An almost identical analysis of this tariff from the perspective of a net producing country yields parallel results. From that country's perspective, the tariff leaves producers worse off and consumers better off, but the net loss to producers is larger than the benefit to consumers (there is no tax revenue in this case because the country being analyzed is not collecting the tariff. Under similar analysis, export tariffs, import quotas, and export quotas all yield nearly identical results.

Sometimes consumers are better off and producers worse off, and sometimes consumers are worse off and producers are better off, but the imposition of trade restrictions causes a net loss to society because the losses from trade restrictions are larger than the gains from trade restrictions. Free trade creates winners and losers, but theory and empirical evidence show that the size of the winnings from free trade are larger than the losses.

Trade diversion

According to mainstream economic theory, the selective application of free trade agreements to some countries and tariffs on others can lead to economic inefficiency through the process of trade diversion. It is economically efficient for a good to be produced by the country which is the lowest cost producer, but this does not always take place if a high cost producer has a free trade agreement while the low cost producer faces a high tariff. Applying free trade to the high cost producer (and not the low cost producer as well) can lead to trade diversion and a net economic loss. This is why many economists place such high importance on negotiations for global tariff reductions, such as the Doha Round.

Opinion of economists

The literature analysing the economics of free trade is extremely rich with extensive work having been done on the theoretical and empirical effects. Though it creates winners and losers, the broad consensus among economists is that free trade is a large and unambiguous net gain for society. In a 2006 survey of American economists (83 responders), "87.5% agree that the U.S. should eliminate remaining tariffs and other barriers to trade" and "90.1% disagree with the suggestion that the U.S. should restrict employers from outsourcing work to foreign countries."

Quoting Harvard economics professor N. Gregory Mankiw, "Few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards." Nonetheless, quoting Professor Peter Soderbaum of Malardalen University, Sweden, "This neoclassical trade theory focuses on one dimension, i.e., the price at which a commodity can be delivered and is extremely narrow in cutting off a large number of other considerations about impacts on employment in different parts of the world, about environmental impacts and on culture."

Most economists would agree that although increasing returns to scale might mean that certain industry could settle in a geographical area without any strong economic reason derived from comparative advantage, this is not a reason to argue against free trade because the absolute level of output enjoyed

by both "winner" and "loser" will increase with the "winner" gaining more than the "loser" but both gaining more than before in an absolute level.

In the classic text *An Inquiry into the Nature and Causes of the Wealth of Nations* (*Wealth of Nations*), namely, in the passage "Of Restraints upon the Importation from Foreign Countries of such Goods as can be Produced at Home" economist Adam Smith describes reasons for allowing free trade.

The notion of a free trade system encompassing multiple sovereign states first originated in a rudimentary form in 16th century Imperial Spain. American jurist Arthur Nussbaum noted that Spanish theologian Francisco de Vitoria was "the first to set forth the notions (though not the terms) of freedom of commerce and freedom of the seas." Vitoria made the case under principles of *jus gentium*.[12] However, it was two early British economists Adam Smith and David Ricardo who later developed the idea of free trade into its modern and recognizable form.

Economists who advocated free trade believed trade was the reason why certain civilizations prospered economically. Adam Smith, for example, pointed to increased trading as being the reason for the flourishing of not just Mediterranean cultures such as Egypt, Greece, and Rome, but also of Bengal (East India) and China. The great prosperity of the Netherlands after throwing off Spanish Imperial rule and pursuing a policy of free trade made the free trade/mercantilist dispute the most important question in economics for centuries. Free trade policies have battled with mercantilist, protectionist, isolationist, communist, populist, and other policies over the centuries.

Trade in colonial America was regulated by the British mercantile system through the Act of Trade and Navigation. Until the 1760s, few colonists openly advocated for free trade, in part because regulations were not strictly enforced—New England was famous for smuggling—but also because colonial merchants did not want to compete with foreign goods and shipping. According to historian Oliver Dickerson, a desire for free trade was not one of the causes of the American Revolution. "The idea that the basic mercantile practices of the eighteenth century were wrong," wrote Dickerson, "was not a part of the thinking of the Revolutionary leaders".[14]

Free trade came to what would become the United States as a result of American Revolutionary War, when the British Parliament issued the Prohibitory Act, blockading colonial ports. The Continental Congress responded by effectively declaring economic independence, opening American ports to foreign trade on April 6, 1776. According to historian John W. Tyler, "Free trade had been forced on the Americans, like it or not."

The 1st U.S. Secretary of the Treasury, Alexander Hamilton, advocated tariffs to help protect infant industries in his "Report on Manufactures." For the most part, the "Jeffersonians" strongly opposed it. In the 19th century, statesmen such as Senator Henry Clay continued Hamilton's themes within the Whig Party under the name "American System." The opposition Democratic Party contested several elections throughout the 1830s, 1840s, and 1850s in part over the issue of the tariff and protection of industry.

In Britain, free trade became a central principle practiced by the 1840s. The first free trade agreement, the Cobden-Chevalier Treaty, was put in place in 1860 between the United Kingdom and France, which led to successive agreements between other countries in Europe.

In the U.S., the Democratic Party favored moderate tariffs used for government revenue only, while the Whigs favored higher protective tariffs to protect favored industries. The economist Henry Charles Carey became a leading proponent of the "American System" of economics. This mercantilist "American System" was opposed by the Democratic Party of Andrew Jackson, Martin Van Buren, James K. Polk, Franklin Pierce, and James Buchanan.

The fledgling Republican Party led by Abraham Lincoln, who called himself a "Henry Clay tariff Whig", strongly opposed free trade and implemented a 44-percent tariff during the Civil War—in part to pay for railroad subsidies and for the war effort, and to protect favored industries.[17] William McKinley (later to become President of the United States) stated the stance of the Republican Party (which won every election for President from 1868 until 1912, except the two non-consecutive terms of Grover Cleveland) as thus:

Under free trade the trader is the master and the producer the slave. Protection is but the law of nature, the law of self-preservation, of self-development, of securing the highest and best destiny of the race of man. [It is said] that protection is immoral.... Why, if protection builds up and elevates 63,000,000 [the U.S. population] of people, the influence of those 63,000,000 of people elevates the rest of the world. We cannot take a step in the pathway of progress without benefitting mankind everywhere. Well, they say, 'Buy where you can buy the cheapest'.... Of course, that applies to labor as to everything else. Let me give you a maxim that is a thousand times better than that, and it is the protection maxim: 'Buy where you can pay the easiest.' And that spot of earth is where labor wins its highest rewards.

Many classical liberals, especially in 19th and early 20th century Britain (e.g., John Stuart Mill) and in the United States for much of the 20th century (e.g., Cordell Hull), believed that free trade promoted peace. Woodrow Wilson included free-trade rhetoric in his "Fourteen Points" speech of 1918:

The program of the world's peace, therefore, is our program; and that program, the only possible program, all we see it, is this: [...]

3. The removal, so far as possible, of all economic barriers and the establishment of equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.

During the interwar period, economic protectionism took hold in the United States, particularly as a result of the Smoot-Hawley Tariff Act which prolonged and spread the Great Depression.[20]:33 From 1934, trade liberalization began to take place through the Reciprocal Trade Agreements Act.

Post-war

Since the end of World War II, in part due to industrial size and the onset of the Cold War, the United States has often been a proponent of reduced tariff-barriers and free trade. The U.S. helped establish the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO); although it had rejected an earlier version in the 1950s (International Trade Organization or ITO). Since the 1970s, U.S. governments have negotiated managed-trade agreements, such as the North American Free Trade Agreement (NAFTA) in the 1990s, the Dominican Republic-Central America Free Trade Agreement (CAFTA) in 2006, and a number of bilateral agreements (such as with Jordan).

In Europe, six countries formed the European Coal and Steel Community (ECSC) in 1951 which became the European Economic Community (EEC) in 1958. Two core objectives of the EEC were the development of a common market, subsequently renamed the single market, and a customs union between its member states. After expanding its membership, the EEC became the European Union (EU) in 1993. The European Union, now the world's largest single market,[26] has concluded free trade agreements with many countries around the world.

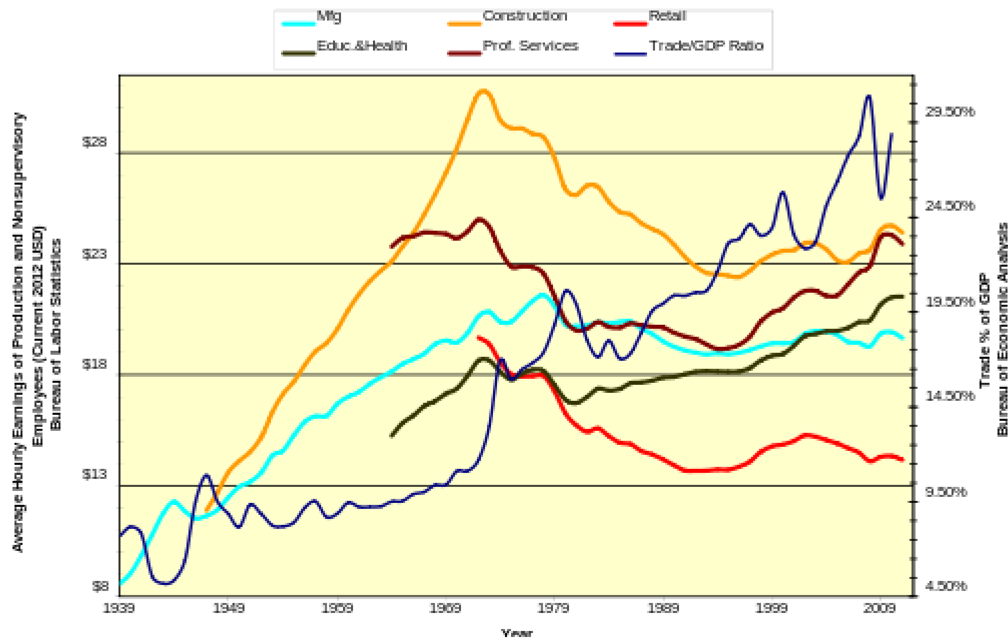
Most countries in the world are members of the World Trade Organization, which limits in certain ways but does not eliminate tariffs and other trade barriers. Most countries are also members of regional free trade areas that lower trade barriers among participating countries. The EU and the US are negotiating a Transatlantic Trade and Investment Partnership. Led by the U.S., twelve countries that have borders on the Pacific Ocean are currently in private negotiations around the Trans-Pacific Partnership, which is being touted by the negotiating countries as a free trade policy.

The relative costs, benefits and beneficiaries of free trade are debated by academics, governments and interest groups.

Arguments for protectionism fall into the economic category (trade hurts the economy) or the moral category (the effects of trade might help the economy, but have ill effects in other areas); a general argument against free trade is that it is colonialism or imperialism in disguise. The moral category is wide, including concerns of destroying infant industries and undermining long-run economic development, income inequality, environmental degradation, supporting child labor and sweatshops, race to the bottom, wage slavery, accentuating poverty in poor countries, harming national defense, and forcing cultural change.

Economic arguments against free trade criticize the assumptions or conclusions of economic theories. Sociopolitical arguments against free trade cite social and political effects that economic arguments do not capture, such as political stability, national security, human rights and environmental protection.

Free trade is often opposed by domestic industries that would have their profits and market share reduced by lower prices for imported goods.[32][33] For example, if United States tariffs on imported sugar were reduced, U.S. sugar producers would receive lower prices and profits, while U.S. sugar consumers would spend less for the same amount of sugar because of those same lower prices. The economic theory of David Ricardo holds that consumers would necessarily gain more than producers would lose.[34][35] Since each of those few domestic sugar producers would lose a lot while each of a great number of consumers would gain only a little, domestic producers are more likely to mobilize against the lifting of tariffs.[33] More generally, producers often favor domestic subsidies and tariffs on imports in their home countries, while objecting to subsidies and tariffs in their export markets.



Real Wages vs Trade as a Percent of GDP[36][37]

Socialists frequently oppose free trade on the ground that it allows maximum exploitation of workers by capital. For example, Karl Marx wrote in *The Communist Manifesto*, "The bourgeoisie... has set up that single, unconscionable freedom – free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation." Nonetheless, Marx favored free trade *solely* because he felt that it would hasten the social revolution.

"Free trade" is opposed by many anti-globalization groups, based on their assertion that free trade agreements generally do not increase the economic freedom of the poor or the working class, and frequently make them poorer. Where the foreign supplier allows de facto exploitation of labor, domestic free-labor is unfairly forced to compete with the foreign exploited labor, and thus the domestic "working class would gradually be forced down to the level of helotry." To this extent, free trade is seen as nothing more than an end-run around laws that protect individual liberty, such as the Thirteenth Amendment to the United States Constitution (outlawing slavery and indentured servitude).

It is important to distinguish between arguments against free trade theory, and free trade *agreements* as applied. Some opponents of NAFTA see the agreement as being materially harmful to the common people, but some of the arguments are actually against the particulars of government-managed trade, rather than against free trade *per se*. For example, it is argued that it would be wrong to let subsidized corn from the U.S. into Mexico freely under NAFTA at prices well below production cost (dumping) because of its ruinous effects to Mexican

farmers. Of course, such subsidies violate free trade theory, so this argument is not actually against the principle of free trade, but rather its selective implementation.

Colonialism

For more details on this topic, see Dependency theory.

It has long been argued that free trade is a form of colonialism or imperialism, a position taken by various proponents of economic nationalism and the school of mercantilism. In the 19th century these criticized British calls for free trade as cover for British Empire, notably in the works of American Henry Clay, architect of the American System[41] and by German American economist Friedrich List.[42]

More recently, Ecuadorian President Rafael Correa has denounced the "sophistry of free trade" in an introduction he wrote for a book titled *The Hidden Face of Free Trade Accords*, written in part by Correa's current Energy Minister Alberto Acosta. Citing as his source the book *Kicking Away the Ladder*, written by Ha-Joon Chang, Correa identified the difference between an "American system" opposed to a "British System" of free trade. The latter, he says, was explicitly viewed by the Americans as "part of the British imperialist system." According to Correa, Chang showed that it was Treasury Secretary Alexander Hamilton, and not Friedrich List, who was the first to present a systematic argument defending industrial protectionism.

Alternatives

The following alternatives for free trade have been proposed: balanced trade, fair trade, protectionism, industrial policy, and Tobin tax.

In literature

The value of free trade was first observed and documented by Adam Smith in *The Wealth of Nations*, in 1776. He wrote,

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy.... If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.

This statement uses the concept of absolute advantage to present an argument in opposition to mercantilism, the dominant view surrounding trade at the

time, which held that a country should aim to export more than it imports, and thus amass wealth. Instead, Smith argues, countries could gain from each producing exclusively the good(s) in which they are most suited to, trading between each other as required for the purposes of consumption. In this vein, it is not the value of exports relative to that of imports that is important, but the value of the goods produced by a nation. The concept of absolute advantage however does not address a situation where a country has no advantage in the production of a particular good or type of good.

This theoretical shortcoming was addressed by the theory of comparative advantage. Generally attributed to David Ricardo who expanded on it in his 1817 book *On the Principles of Political Economy and Taxation*, it makes a case for free trade based not on absolute advantage in production of a good, but on the relative opportunity costs of production. A country should specialize in whatever good it can produce at the lowest cost, trading this good to buy other goods it requires for consumption. This allows for countries to benefit from trade even when they do not have an absolute advantage in any area of production. While their gains from trade might not be equal to those of a country more productive in all goods, they will still be better off economically from trade than they would be under a state of autarky.

Exceptionally, Henry George's 1886 book *Protection or Free Trade* was read out loud in full into the Congressional Record by five Democratic congressmen. Tyler Cowen wrote that 'Protection or Free Trade *"remains perhaps the best-argued tract on free trade to this day."*. George discusses the subject in particular with respect to the interests of labor. Although George is very critical towards protectionism:

We all hear with interest and pleasure of improvements in transportation by water or land; we are all disposed to regard the opening of canals, the building of railways, the deepening of harbors, the improvement of steamships as beneficial. But if such things are beneficial, how can tariffs be beneficial? The effect of such things is to lessen the cost of transporting commodities; the effect of tariffs is to increase it. If the protective theory be true, every improvement that cheapens the carriage of goods between country and country is an injury to mankind unless tariffs be commensurately increased.[53]

George considers the general free trade argument 'inadequate'. He argues that the removal of protective tariffs only can never be sufficient to improve the situation of the working class, unless there is a shift towards land value tax as well.

- Neoliberalism

Neoliberalism

From Wikipedia, the free encyclopedia

For the school of international relations, see Neoliberalism in international relations.

Neoliberalism is a term whose usage and definition have changed over time.

Since the 1980s, the term has been used primarily by scholars and critics in reference to the resurgence of 19th century ideas associated with *laissez-faire* economic liberalism beginning in the 1970s and 1980s, whose advocates support extensive economic liberalization policies such as privatization, fiscal austerity, deregulation, free trade, and reductions in government spending in order to enhance the role of the private sector in the economy. Neoliberalism is famously associated with the economic policies introduced by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States.[3] The transition of consensus towards neoliberal policies and the acceptance of neoliberal economic theories in the 1970s are seen by some academics as the root of financialization, with the financial crisis of 2007–08 one of the ultimate results.[12][13][14][15][16]

Neoliberalism was originally an economic philosophy that emerged among European liberal scholars in the 1930s in an attempt to trace a so-called 'Third' or 'Middle Way' between the conflicting philosophies of classical liberalism and collectivist central planning. The impetus for this development arose from a desire to avoid repeating the economic failures of the early 1930s, which were mostly blamed on the economic policy of classical liberalism. In the decades that followed, the use of the term neoliberal tended to refer to theories at variance with the more *laissez-faire* doctrine of classical liberalism, and promoted instead a market economy under the guidance and rules of a strong state, a model which came to be known as the social market economy.

In the 1960s, usage of the term "neoliberal" heavily declined. When the term was reintroduced in the 1980s in connection with Augusto Pinochet's economic reforms in Chile, the usage of the term had shifted. It had not only become a term with negative connotations employed principally by critics of market reform, but it also had shifted in meaning from a moderate form of liberalism to a more radical and *laissez-faire* capitalist set of ideas. Scholars now tended to associate it with the theories of economists Friedrich Hayek and Milton Friedman. Once the new meaning of neoliberalism was established as a common usage among Spanish-speaking scholars, it diffused directly into the English-language study of political economy. Scholarship on the phenomenon of neoliberalism has been growing. The impact of the global 2008-09 crisis has also given rise to new scholarship that critiques neoliberalism and seeks developmental alternatives. From the other part the financial crisis made posible the reemergence of the 'Middle way' neoliberalism (and balanced fiscal policies) together with austerity policies.

Terminology

The German scholar Alexander Rüstow coined the term "neoliberalism" in 1938 at the Colloque Walter Lippmann. The colloquium defined the concept of neoliberalism as involving "the priority of the price mechanism, the free enterprise, the system of competition and a strong and impartial state". To be "neoliberal" meant advocating a modern economic policy with State intervention. Neoliberal State interventionism brought a clash with the opposite laissez-faire camp of classical liberals, like Ludwig von Mises. While present-day scholars tend to identify Friedrich Hayek, Milton Friedman, and Ayn Rand as the most important theorists of neoliberalism, most scholars in the 1950s and 1960s understood neoliberalism as referring to the social market economy and its principal economic theorists such as Eucken, Röpke, Rüstow, and Müller-Armack. Although Hayek had intellectual ties to the German neoliberals, his name was only occasionally mentioned in conjunction with neoliberalism during this period due to his more pro-free market stance. Friedman's name essentially never appeared in connection with neoliberalism until the 1980s. In the sixties, use of the term "neoliberal" heavily declined.

Another movement from the American left that used the term "Neoliberalism" to describe its ideology formed in the United States in the 1970s. Prominent neoliberal politicians supposedly included Al Gore and Bill Clinton of the Democratic Party of the United States. The neoliberals coalesced around two magazines, *The New Republic* and the *Washington Monthly*. The "godfather" of this version of neoliberalism was the journalist Charles Peters who in 1983 published "A Neoliberal's Manifesto."

Elizabeth Tandy Shermer argues that, "Academics (largely left-wing) started using "neoliberalism" in the 1970s to describe and decry a late twentieth-century effort by policy makers, think-tank experts, and industrialists to condemn social-democratic reforms and unapologetically implement free-market policies." Other academics note that neoliberalism has critics from across the political spectrum.

During the military rule under Augusto Pinochet (1973–1990) in Chile, opposition scholars took up the expression to describe the economic reforms implemented in Chile after 1973 and its proponents (the Chicago Boys). Once the new meaning of neoliberalism was established as a common usage among Spanish-speaking scholars, it diffused directly into the English-language study of political economy. In the last two decades, according to the Boas and Gans-Morse study of 148 journal articles, neoliberalism is almost never defined but used in several senses to describe ideology, economic theory, development theory, or economic reform policy. It has largely become a term of condemnation employed by critics. And it now suggests a market fundamentalism closer to the laissez-faire principles of the "paleoliberals" than to the ideas of the original neoliberals who attended the colloquium. This leaves some controversy as to the precise meaning of the term and its usefulness as a descriptor in the social sciences, especially as the number of different kinds of market economies have proliferated in recent years. In the book *Neoliberalism:*

A Very Short Introduction, published by Oxford University Press (2010), the authors argue that neoliberalism is "anchored in the principles of the free-market economics."
According to Boas and Gans-Morse, neoliberalism is nowadays an academic catchphrase used mainly by critics as a pejorative term, and has outpaced the use of similar terms such as monetarism, neoconservatism, the Washington Consensus and "market reform" in much scholarly writing.[2] Daniel Stedman Jones, a historian of the concept, says the term "is too often used as a catch-all shorthand for the horrors associated with globalization and recurring financial crises"[32] Nowadays the most common use of the term neoliberalism refers to market-oriented reform policies such as "eliminating price controls, deregulating capital markets, lowering trade barriers", and reducing state influence on the economy especially by privatization and fiscal austerity.[2] The term is used in several senses: as a development model it refers to the rejection of structuralist economics in favor of the Washington Consensus; as an ideology the term is used to denote a conception of freedom as an overarching social value associated with reducing state functions to those of a minimal state; and finally as an academic paradigm the term is closely related to neoclassical economic theory. The sociologists Fred L. Block and Margaret R. Somers claim there is a dispute over what to call the influence of free market ideas which have been used to justify the retrenchment of New Deal programs and policies over the last thirty years: neoliberalism, *laissez-faire* or just "free market ideology."
Other academics, such as Susan Braedley and Meg Luxton, assert that neoliberalism is a political philosophy which seeks to "liberate" the processes of capital accumulation. American professor of political science and Democratic socialist Frances Fox Piven sees neoliberalism as essentially hyper-capitalism.[34] Robert W. McChesney, American professor at the University of Illinois at Urbana–Champaign and co-editor of the independent socialist magazine *Monthly Review,* claims that the term neoliberalism, which he defines as "capitalism with the gloves off," is largely unknown by the general public, particularly in the United States.

Classical liberalism in the 20th century

This section **relies too much on references to primary sources**. Please improve this article by adding secondary or tertiary sources. *(June 2013)*

Classical liberalism was revived in inter-War Austria by economists, including Friedrich Hayek and Ludwig von Mises. They were concerned about the erosion of liberty by both socialist and fascist governments in Europe at that time and tried to restate the case for liberty. Hayek's 1970s book, *The Constitution of Liberty* sums up this argument. In the introduction he states: *If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations.*
Hayek's belief in liberty stemmed from an argument about information. He believed that no individual (or group, including the government) could ever

understand everything about an economy or a society in order to rationally design the best system of governance. He argued this only got worse as scientific progress increased and the scope of human knowledge grew, leaving individuals increasingly more and more ignorant in their lifetimes. As a result, he believed it was impossible for any person or government to design the perfect systems under which people could be governed. The only solution to this, he believed, was to allow all possible systems to be tried in the real world and to allow the better systems to beat the worse systems through competition. In a liberal society, he believed, the few who used liberty to try out new things would come up with successful adaptations of existing systems or new ways of doing things. These discoveries, once shared and become mainstream, would benefit the whole of society, even those who did not directly partake of liberty.

Due to the ignorance of the individual, Hayek argued that an individual could not understand which of the various political, economic and social rules they had followed had made them successful. In his mind, this made the superstitions and traditions of a society in which an individual operated vitally important, since in probability they had, in some way, aided the success of the individual. This would be especially true in a successful society, where these superstitions and traditions would, in all probability be successful ones that had evolved over time to exploit new circumstances. However, this did not excuse any superstition or tradition being followed if it had outlived its usefulness: respect of tradition and superstition for the sake of tradition and superstition were not acceptable values to him. Therefore classical liberalism combined a respect for the old, drawn from conservatism, with the progressive striving towards the future, of liberalism.

In emphasising evolution and competition of ideas, Hayek highlighted the divide between practical liberalism that evolved in a haphazard way in Britain, championed by such people as David Hume and Adam Smith, versus the more theoretical approach of the French, in such people as Descartes and Rousseau. Hayek christened these the pragmatic and rationalist schools, the former evolving institutions with an eye towards liberty and the later creating a brave new world by sweeping all the old and therefore useless ideas away. Hayeks's ideas on information and the necessity of evolving evolutions placed liberalism firmly on the pragmatic side against both rationalist socialists (such as communists, fascism and social liberals) and rationalist capitalists (such as economic libertarians, laissez-faire capitalists) alike.

The rule of law

At the centre of liberalism was the rule of law. Hayek believed that liberty was maximised when coercion was minimised. Hayek did not believe that a complete lack of coercion was possible, or even desirable, for a liberal society, and he argued that a set of traditions was absolutely necessary which allowed individuals to judge whether they would or would not be coerced. This body of tradition he notes as law and the use of this tradition the Rule of Law. In designing a liberal system of law, Hayek believed that two things were vitally

important: the protection and delineation of the personal sphere and the prevention of fraud and deception, which could be maintained only by threat of coercion from the state. In delineating a personal sphere, individuals could know under what circumstances they would or would not be coerced, and could plan accordingly.
In designing such a system, Hayek believed that it could maintain a protected sphere by protecting against abuses by the ruling power, be it a monarch (e.g., Bill of Rights 1689), the will of the majority in a democracy (e.g., the US Constitution) or the administration[101] (e.g. the Rechtsstaat). He believed that the most important features of such protections were equality before the law, and generality of the law. Equality meant that all should be equal before the law and therefore subject to it, even those decisions of a legislature or government administration. Generality meant that the law should be general and abstract, focusing not on ends or means, as a command would, but on general rules which, by their lack of specificity, could not be said to grant privileges, discriminate or compel any specific individual to an end. General laws could also be used to transmit knowledge and encourage spontaneous order in human societies (much like the use of Adam Smith's invisible hand in economics). He also stressed the importance of individuals being responsible for their actions in order to encourage others to respect the law.

Policy

Important practical tools for making these things work included separation of powers, the idea that those enforcing the law and those making it should be separate, to prevent the lawmakers from pursuing short-term ends and constitutionalism, the idea that lawmakers should be legally bound about the laws they could pass, thereby preventing absolute rule by the majority.
In the late 1980s, a practical statement of neoliberal aims was codified in the Washington Consensus.

Conservatism

Classical neoliberalism's respect for tradition, combined with its pragmatic approach to progress, endeared it to conservative movements around the world looking for a way to adapt to the changing nature of the modern world. This saw it adopted by conservative movements, most famously in Chile under Pinochet, the United Kingdom under Margaret Thatcher[106] and in the United States of America under Ronald Reagan.
David Harvey suggests that Lewis Powell's 1971 confidential memorandum to the US Chamber of Commerce, a call to arms to the business community to counter criticism of the free enterprise system, was a significant factor in the rise of conservative organizations and think-tanks which advocated for neoliberal policies, such as The Heritage Foundation, The Cato Institute, Citizens for a Sound Economy, Accuracy in Academia and the Manhattan Institute for Policy Research. For Powell, universities were becoming an ideological battleground and recommended the establishment of an intellectual

infrastructure to serve as a counterweight to the increasingly popular ideas of Ralph Nader and other opponents of big business.

Economic neoliberalism

The next important form of neoliberalism is economic neoliberalism. Economic neoliberalism stems out of the historical rift between classical liberalism and economic liberalism, and developed when the economically liberal minded co-opted the language and ideas of classical neoliberalism to place economic freedom at its heart, making it a right-wing ideology. Essentially, economic neoliberalism can be derived by taking the classical neoliberal definition above and taking the protected personal sphere to solely refer to property rights and contract. The liberal opposite of economic neoliberalism is modern liberalism, the corresponding left-wing ideology. The best known proponent of economic neoliberalism is Milton Friedman.

Economic neoliberalism is the most common form of neoliberalism, and is what is usually meant when a system is described as neoliberal. According to Tayab Mahmud, quoting terminology from Anthony Carty

The neoliberal project is to turn the "nation-state" into a "market-state," one with the primary agenda of facilitating global capital accumulation unburdened from any legal regulations aimed at assuring welfare of citizens. In summary, neoliberalism seeks unbridled accumulation of capital through a rollback of the state, and limits its functions to minimal security and maintenance of law, fiscal and monetary discipline, flexible labor markets, and liberalization of trade and capital flows.

Economic neoliberalism is distinct from classical neoliberalism for many reasons. Hayek believed that certain elements that now make up modern economic neoliberal thought are too rationalist, relying on preconceived notions of human behaviour, such as the idea of homo economicus. Paul Treanor points out that it is too utopian, and therefore illiberal. David Harvey points out that economic neoliberalism is "theory of economic political practices", rather than a complete ideology, and therefore, no correlation or connection needs to exist between a favourable assessment of neoliberal economic practises and a commitment to liberalism proper. Likewise Anna-Maria Blomgren views neoliberalism as a continuum ranging from classical to economic liberalism. A broad and, it is hoped, clearer restatement of the above is to point out that classic liberals must be economic liberals, but economic liberals do not have to be classically liberal, and it is the latter group that makes up the "new liberalism" of economic neoliberalism.

Neoliberal economics

Friedman's chief argument about neoliberalism can be described as a consequentialist libertarian one: that the reason for adopting minimal government interference in the economy is for its beneficial consequences, and not any ideological reason. At the heart of economic neoliberalism are various theories that prove the economic neoliberal ideology.

Neoliberal economics in the 1920s took the ideas of the great liberal economists, such as Adam Smith, and updated them for the modern world. Friedrich Hayek's ideas on information flow, present in classical neoliberalism, were codified in economic form under the Austrian School as the economic calculation problem. This problem of information flow implied that a decentralised system, in which information travelled freely and was freely determined at each localised point (Hayek called this catallaxy), would be much better than a central authority trying to do the same, even if it was completely efficient and was motivated to act in the public good. In this view, the free market is a perfect example of such a system in which the market determined prices act as the information signals flowing through the economy. Actors in the economy could make decent decisions for their own businesses factoring in all the complex factors that led to market prices without having to understand or be completely aware of all of those complex factors.

In accepting the ideas of the Austrian School regarding information flow, economic neoliberals were forced to accept that free markets were artificial, and therefore would not arise spontaneously, but would have to be enforced, usually through the state and the rule of law. In this way, economic neoliberalism enshrines the role of the state and becomes distinct from libertarian thought. However, in accepting the ideas of self-regulating markets, neoliberals drastically restrict the role of the government to managing those forms of market failure that the neoliberal economics allowed: property rights and information asymmetry. This restricted the government to maintaining property rights by providing law and order through the police, maintaining an independent judiciary and maintaining the national defence, and basic regulation to guard against fraud. This made neoliberal economics distinct from Keynesian economics of the preceding decades.

These ideas were then developed further. Milton Friedman introduced the idea of adaptive expectations during the stagflation of the 1970s, which claims to describe why government interference (in the form of printing money) resulted in increasing inflation, as shop owners started to predict the rate of increase in the money supply, rendering the government action useless. This developed into the idea of rational expectations, which concludes that all government interference is useless and disruptive because the free market would predict and undermine the government's proposed action. At the same time, the efficient-market hypothesis assumed that, because of catallaxy, the market could not be informationally wrong. Or, to paraphrase the famous quote of Warren Buffett, "the market is there to inform you, not serve you". Combined with rational expectations, this showed that markets would be self-regulating, and that regulation was unnecessary and disruptive.

Additionally, claims proliferated that the free market would produce the socially optimum equilibrium with regard to production of goods and services, such as the fundamental theorems of welfare economics and general

equilibrium theory, which helped prove further that government intervention could only result in making society worse off (see Pareto efficient).

Criticism

This section **possibly contains original research**. Please improve it by verifying the claims made and adding inline citations. Statements consisting only of original research should be removed. *(March 2014)*

The rise of neoliberalism in the 1970s as a practical system of government saw it implemented in various forms across the world. In some cases, the result was not anything that could be identified as neoliberalism, often with catastrophic results for the poor. This has resulted in many on the left claiming that this is a deliberate goal of neoliberalism, while those on the right defend the original goals of neoliberalism and insist otherwise, an argument that rages to this day. Nevertheless, neoliberalism has come under attack not only from the political left (social democrats), but also elements of the right (cultural nationalists) and myriad activists and academics. This section attempts to provide an unbiased overview of this discussion, focusing on all the forms of neoliberalism that are not in any way neoliberal, but which have come to be associated with it, as well as the reasons for why this has happened.

One of the best and least controversial examples of "neoliberal" reform is in Russia, whose reforms in 1989 were justified under neoliberal economic policy but which lacked any of the basic features of a neoliberal state (e.g. the rule of law, free press) which could have justified the reforms.

General liberal failure

The least controversial aspect of neoliberalism has often been presented by modern economists critical of neoliberalism's role in the world economic system. Among these economists, the chief voices of dissent are Joseph Stiglitz and Paul Krugman.

Both use arguments about market failure to justify their views on neoliberalism. They argue that when markets are imperfect (which is to say all markets everywhere to some degree), then they can fail and may not work as neoliberals predict, resulting in some form of crony capitalism. The two chief modes of failure are usually due to imperfect property rights and due to imperfect information and correspond directly to Friedrich Hayek's assertion that classical liberalism will not work without protection of the private sphere and the prevention of fraud and deception.

The failure of property rights means that individuals can't protect ownership of their resources and control what happens to them, or prevent others from taking them away. This usually stifles free enterprise and results in preferential treatment for those who can.

Class project

Not all members of a society may have equal access to the law or to information, even when everyone is theoretically equal under the law, as in a liberal democracy. This is because access to the law and information is not free as liberals (such as Hayek) assume, but have associated costs. Therefore, in

this context, it is sound to say that the wealthy have greater rights than the poor.
In some cases, the poor may have practically no rights at all if their income falls below the levels necessary to access the law and unbiased sources of information, while the very wealthy may have the ability to choose which rights and responsibilities they bear if they can move themselves and their property internationally, resulting in social stratification, also known as class. This alleged tendency to create and strengthen class has resulted in some (most famously David Harvey claiming that neoliberalism is a class project, designed to impose class on society through liberalism. Economist David M. Kotz contends that neoliberalism "is based on the thorough domination of labor by capital."[The emergence of the 'precariat', a new class facing acute socio-economic insecurity and alienation, has been attributed to the globalization of neoliberalism.
Sociologist Thomas Volscho has argued that the imposition of "neoliberalism" in the United States arose from a conscious political mobilization by capitalist elites in the 1970s who faced two crises: the legitimacy of capitalism and a falling rate of profitability in industry. Various "neoliberal" ideologies (such as "monetarism" and "supply-side economics") had been long advanced by elites, translated into policies by the Reagan administration, and ultimately resulted in less governmental regulation and a shift from a tax-financed state to a debt-financed one. While the profitability of industry and the rate of economic growth never recovered to the heyday of the 1960s, the political and economic power of Wall Street and finance capital vastly increased due to the debt-financing of the state."
Sociologist Loïc Wacquant argues that neoliberal policy for dealing with social instability among economically marginalized populations following the retrenchment of the social welfare state and the rise of punative workfare, increased gentrification of urban areas, privatization of public functions, the shrinking of collective protections for the working class via economic deregulation, and the rise of underpaid, precarious wage labor is the criminalization of poverty followed by mass incarceration. By contrast, it is extremely lenient in dealing with those in the upper echelons of society, in particular when it comes to economic crimes of the privileged classes and corporations such as fraud, embezzlement, insider trading, credit and insurance fraud, money laundering, and violation of commerce and labor codes. According to Wacquant, neoliberalism doesn't shrink government but instead sets up a *centaur state,* with little governmental oversight for those at the top and strict control of those at the bottom.
In expanding upon Wacquant's thesis, sociologist and political economist John L. Campbell of Dartmouth College suggests that through privatization, the prison system exemplifies the *centaur state*:

On the one hand, it punishes the lower class, which populates the prisons; on the other hand, it profits the upper class, which owns the prisons, and it employs the middle class, which runs them.
In addition, he says the prison system benefits corporations through outsourcing, as the inmates are "slowly becoming a source of low-wage labor for some US corporations." Both through privatization and outsourcing, Campbell argues, the US penal state reflects neoliberalism. Campbell also argues that while neoliberalism in the US established a penal state for the poor, it also put into place a debtor state for the middle class, and that "both have had perverse effects on their respective targets: increasing rates of incarceration among the lower class and increasing rates of indebtedness—and recently home foreclosure—among the middle class."

Feminism

Neo-liberalism has been criticized by feminist theory for having a negative effect on the female workforce population across the globe -especially in the global south. Masculinist assumptions and objectives continue to dominate economic and geopolitical thinking. Women's experiences in non-industrialized countries reveal often deleterious effects of modernization policies and undercut orthodox claims that development benefits everyone. Proponents of neoliberalism have often theorized that by furthering women's participation in the workforce, there will be heightened economic progress, but feminist critics have noted that this participation alone does not further equality in gender relations. Neoliberalism has failed to address significant problems such as the devaluation of feminized labour, the structural privileging of men and masculinity, and the politicization of women's subordination in the family and the workplace. The 'feminization of employment' refers to a conceptual characterization of deteriorated and devalorized labour conditions that are less desirable, meaningful, safe and secure. Employers in the global south have perceptions about feminine labour and seek workers who are perceived to be undemanding, docile and willing to accept low wages. Social constructs about feminized labour have played a big part in this, for instance, employers often perpetuate ideas about women as 'secondary income earners to justify their lower rates of pay and not deserving of training or promotion. The exploitation of female workers production centers is very widespread, women workforces are subject to high levels of control and surveillance, and worked under extreme measures to achieve production goals under the observation of their supervisors. The privatization that comes along with neoliberal economic reforms for countries who want loans from western multinational corporations reduce public spending drastically and women are disproportionately affected because they depend on secure government jobs and public resources more often than men. When economic condition deteriorate, women are culturally expected to fill the gap, in spite of few resources.
Neoliberalism can also be seen as gutting liberal concepts under market values. Liberal feminism has seen the same effect with new definitions under

neoliberalism using key liberal terms such as equality, opportunity, and free choice while displacing and replacing their content to individualized and entrepreneurial content. The individualistic nature of this new feminism disavows the social, cultural, and economic forces producing this inequality, moving feminism from a structural problem into an individual affair. This hollows out the potential of liberal feminism to underscore the constitutive contradictions of liberal democracy and further entrenches neoliberal rationality and imperialistic logic. The neoliberal shift in feminism neutralizes collective uprising and transfers the site of activity from the public arena to each individuals psyche. With no orientation beyond the self, feminism is not being steered towards the toppling of the political order or even coming to awareness of systematic male domination. Liberal feminism when individualized rather than collectivized completely detaches from social inequality and consequently cannot offer any sustained analysis of the structures of male dominance, power, privilege. The larger support in feminism for Hillary Clinton in 2016 (NOW and "Feminists for Clinton") is an example of this shift in feminism towards neoliberalism considering Clinton has consistently favored policies devastating to women and LGBT practices. This shift reflects a narrowness of analysis, vision, and values that only apply to wealthy white women who share in the wealth from corporate capitalism and U.S. imperial power.

Globalization

In practice, less developed nations have less developed rights and institutions, resulting in greater risk for international lenders and businesses. This means that developing countries usually have less privileged access to international markets than developed countries. Because of this effect, international lenders are also more likely to invest in foreign companies (i.e. multinational corporations) inside a country, rather than in local businesses, giving international firms an unfair competitive advantage. Also, speculative flows of capital may enter the country during a boom and leave during a recession, deepening economic crises and destabilizing the economy.

Both of these problems imply that developing countries should have greater protections against international markets than developed ones and greater barriers to trade. Despite such problems, IMF policy in response to crises, which is supposed to be guided by neoliberal ideas such as the Washington Consensus, is to increase liberalization of the economy and decrease barriers, allowing bigger capital flight and the chance for foreign firms to shore up their monopolies. Additionally, the IMF acts to increase moral hazard, since international involvement will usually result in an international bailout with foreign creditors being treated preferentially, leading international firms to discount the risks of doing business in less developed countries and forcing the government to pay for them instead.

The view of some that international involvement and the imposition of "neoliberal" policies usually serves to make things worse and acts against the

interests of the country being "saved", has led some to argue that the policies have nothing to do with any form of liberalism, but hide some other purpose. The most common assertion given by opponents is that they are a form of neocolonialism, where the more developed countries can exploit the less developed countries. However, even opponents do not agree. For example, Stiglitz assumes that there is no neoimperial plot, but that the system is driven by a mixture of ideology and special interests, in which neoliberal fundamentalists, who do not believe that neoliberalism can fail, work with financial and other multinational corporations, who have the most to benefit from opening up foreign markets. David Harvey, on the other hand, argues that local elites exploit neoliberal reforms in order to impose reforms that benefit them at the cost of the poor, while transferring the blame onto the "evil imperialist" developed countries, citing the example of Argentina in 2001.

Corporatism

Mark Arthur has written that the influence of neoliberalism has given rise to an "anti-corporatist" movement that "is articulated around the need to re-claim the power that corporations and global institutions have stripped governments of...". He says that Adam Smith's "rules for mindful markets" served as a basis for the anti-corporate movement, "following government's failure to restrain corporations *from hurting or disturbing the happiness of the neighbor* [Smith]".

Policy implications

Neoliberalism seeks to transfer control of the economy from public to the private sector, under the belief that it will produce a more efficient government and improve the economic health of the nation. The definitive statement of the concrete policies advocated by neoliberalism is often taken to be John Williamson's "Washington Consensus."[150] The Washington Consensus is a list of policy proposals that appeared to have gained consensus approval among the Washington-based international economic organizations (like the International Monetary Fund (IMF) and World Bank). Williamson's list included ten points:

- Fiscal policy Governments should not run large deficits that have to be paid back by future citizens, and such deficits can have only a short term effect on the level of employment in the economy. Constant deficits will lead to higher inflation and lower productivity, and should be avoided. Deficits should only be used for occasional stabilization purposes.
- Redirection of public spending from subsidies (especially what neoliberals call "indiscriminate subsidies") and other spending neoliberals deem wasteful toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment
- Tax reform – broadening the tax base and adopting moderate marginal tax rates to encourage innovation and efficiency;

- Interest rates that are market determined and positive (but moderate) in real terms;
- Floating exchange rates;
- Trade liberalization – liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs; thus encouraging competition and long term growth
- Liberalization of the "capital account" of the balance of payments, that is, allowing people the opportunity to invest funds overseas and allowing foreign funds to be invested in the home country
- Privatization of state enterprises; Promoting market provision of goods and services which the government cannot provide as effectively or efficiently, such as telecommunications, where having many service providers promotes choice and competition.
- Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions;
- Legal security for property rights;

Reach and effects

Effects in Latin American urbanization

Between the 1930s and the late 1970s most countries in Latin America used the import substitution industrialization model (ISI) to build industry and reduce the dependency on imports from foreign countries. The result of ISI in these countries included: rapid urbanization of one or two major cities, a growing urban population of the working class, and frequent protests by trade unions and left-wing parties. In response to the economic crisis, the leaders of these countries quickly adopted and implemented new neoliberal policies.

A study based on the transformations of urban life and systems as a result of neoliberalism in six countries of Latin America was published by Alejandro Portes and Bryan Roberts. This comparative study included census data analysis, surveying, and fieldwork focused in Argentina, Brazil, Chile, Mexico, Peru, and Uruguay. Predictions of the neoliberalism were extended to these six countries in four areas: urban systems and primacy, urban unemployment and informal employment, urban inequality and poverty, and urban crime and victimization. Data collected support a relationship between the economic policies of neoliberalism and the resulting patterns of urbanization.

In the area of urban systems and primacy two tendencies were revealed in the data. The first was continuing growth in total size of urban populations while the second tendency was the decline in size of the principal city with decreased migration flows to these cities. Therefore, when calculating the urban growth rate each of these countries all showed minimal or a significant decline in growth. Portes and Roberts theorize that the changes are due to the “loss of

attraction of major cities … due to a complex set of factors, but is undoubtedly a related to the end of the ISI era". Although the relationship between the open-market and the transformation of urban systems has not been proven to be a perfect one-to-one relationship, the evidence supports the acceleration or initiation of these two tendencies following neoliberal changes.

There was also a variation in the inequality and poverty in the six countries. While the majority of the population within these countries suffered from poverty, the "upper classes" received the benefits of the neoliberal system. According to Portes and Roberts, "the 'privileged decile' received average incomes equivalent to fourteen times the average Latin American poverty-line income". According to the authors, a direct result of the income inequality is that each country struggled with increased crime and victimization in both urban and suburban settings. However, due to corruption within the police force it is not possible to accurately extrapolate a trend in the data of crime and victimization.

Effects on global health

The effect of neoliberalism on global health, particularly the aspect of international aid involves key players such as non-governmental organizations (NGOs), the International Monetary Fund (IMF), and the World Bank. Neoliberal emphasis has been placed on free markets and privatization which has been tied to the "new policy agenda", an agenda in which NGOs are viewed to provide better social welfare than that of a nation's government. International NGO's have been promoted to fill holes in public services created by the World Bank and IMF through their promotion of Structural Adjustment Programs (SAP's) which slash government health spending and are an unsustainable source of foreign aid. The reduced health spending and the gain of the public health sector by NGOs causes the local health system to become fragmented, undermines local control of health programs and contributes to local social inequality between NGO workers and local individuals.

Support

Political freedom

In *The Road to Serfdom*, Hayek argued that "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends."

Later, in his book *Capitalism and Freedom* (1962), Friedman developed the argument that economic freedom, while itself an extremely important component of total freedom, is also a necessary condition for political freedom. He commented that centralized control of economic activities was always accompanied with political repression.

In his view, the voluntary character of all transactions in an unregulated market economy and wide diversity that it permits are fundamental threats to repressive political leaders and greatly diminish power to coerce. Through elimination of centralized control of economic activities, economic power is separated from political power, and the one can serve as counterbalance to the

other. Friedman feels that competitive capitalism is especially important to minority groups, since impersonal market forces protect people from discrimination in their economic activities for reasons unrelated to their productivity.
Ampflifying Friedman's argument, it has often been pointed out that increasing economic freedoms tend to rise expectations on political freedoms, eventually leading to democracy. Other scholars see the existence of non-democratic yet market-liberal regimes and the undermining of democratic control by market processes as strong evidence that such a general, ahistorical nexus cannot be upheld. Contemporary discussion on the relationship between neoliberalism and democracy shifted to a more historical perspective, studying extent and circumstances of how much the two are mutually dependent, contradictory or incompatible.
Stanley Fish argues that neoliberalization of academic life may promote a narrower and, in his opinion, more accurate definition of academic freedom "as the freedom to do the academic job, not the freedom to expand it to the point where its goals are infinite." What Fish urges is "not an inability to take political stands, but a refraining from doing so in the name of academic responsibility."

Opposition

Opponents of neoliberalism commonly argue these following points:

- Globalization can subvert nations' ability for self-determination.
- Accountability to the stakeholders, who depend upon the service provided by the privatised entity, is lost as a consequence of business secrecy, a practice that is normally adopted by private investors.
- The replacement of a government-owned monopoly with private companies, each supposedly trying to provide the consumer with better value service than all of its private competitors, removes the efficiency that can be gained from the economy of scale.
- Even if it could be shown that neoliberal capitalism increases productivity, it erodes the conditions in which production occurs long term, i.e., resources/nature, requiring expansion into new areas. It is therefore not sustainable within the world's limited geographical space.
- Exploitation: critics consider neo-liberal economics to promote exploitation and social injustice.
- Negative economic consequences: Critics argue that neo-liberal policies produce economic inequality.
- Mass incarceration of the poor: some critics claim that neoliberal policies result in an expanding carceral state and the criminalization of poverty.
- Increase in corporate power: some organizations and economists believe neoliberalism, unlike liberalism, changes economic and government policies to increase the power of corporations, and a shift to benefit the upper classes.

- Anti-democratic: some scholars contend that neoliberalism undermines the basic elements of democracy.
- There are terrains of struggles for neoliberalism locally and socially. Urban citizens are increasingly deprived of the power to shape the basic conditions of daily life.
- Trade-led, unregulated economic activity and lax state regulation of pollution lead to environmental impacts or degradation.
- Deregulation of the labor market produces flexibilization and casualization of labor, greater informal employment, and a considerable increase in industrial accidents and occupational diseases.

Instead of citizens, it produces consumers. Instead of communities, it produces shopping malls. The net result is an atomized society of disengaged individuals who feel demoralized and socially powerless.
Critics sometimes refer to neoliberalism as the "American Model," and make the claim that it promotes low wages and high inequality. According to the economists Howell and Diallo (2007), neoliberal policies have contributed to a U.S. economy in which 30% of workers earn low wages (less than two-thirds the median wage for full-time workers), and 35% of the labor force is underemployed; only 40% of the working-age population in the U.S. is adequately employed. The Center for Economic Policy Research's (CEPR) Dean Baker (2006) argued that the driving force behind rising inequality in the U.S. has been a series of deliberate, neoliberal policy choices including anti-inflationary bias, anti-unionism, and profiteering in the health industry. However, countries have applied neoliberal policies at varying levels of intensity; for example, the OECD (Organisation for Economic Cooperation and Development) has calculated that only 6% of Swedish workers are beset with wages it considers low, and that Swedish wages are overall lower due to their lack of neoliberal policies Others argue that Sweden's adoption of neoliberal reforms, in particular the privatization of public services and reduced state benefits, has resulted in income inequality growing faster in Sweden than any other OECD nation. In the 2014 elections, Swedish voters rejected the neoliberal policies of the center-right government which had undermined the social safety net and put the left-leaning Social Democrats back in power. John Schmitt and Ben Zipperer (2006) of the CEPR have analyzed the effects of intensive Anglo-American neoliberal policies in comparison to continental European neoliberalism, concluding "The U.S. economic and social model is associated with substantial levels of social exclusion, including high levels of income inequality, high relative and absolute poverty rates, poor and unequal educational outcomes, poor health outcomes, and high rates of crime and incarceration. At the same time, the available evidence provides little support for the view that U.S.-style labor-market flexibility dramatically improves labor-market outcomes. Despite popular prejudices to the contrary, the U.S. economy consistently affords a lower level of economic mobility than all the

continental European countries for which data is available." The rise of anti-austerity parties in Europe and SYRIZA's victory in the Greek legislative elections of 2015 have some proclaiming "the end of neoliberalism."

In Latin America, the "pink tide" that swept leftist governments into power at the turn of the millennium can be seen as a reaction against neoliberal hegemony and the notion that "there is no alternative" (TINA) to the Washington Consensus.

Notable critics of neoliberalism in theory or practice include economists Joseph Stiglitz, Amartya Sen, Michael Hudson, Robert Pollin, Julie Matthaei, and Richard D. Wolff, linguist Noam Chomsky, geographer David Harvey,[Marxist feminist Gail Dines, American scholar and cultural critic Henry Giroux, journalist and environmental activist George Monbiot,[184] Belgian Psychologist Paul Verhaeghe and the alter-globalization movement in general, including groups such as ATTAC. Critics of neoliberalism argue that not only is neoliberalism's critique of socialism (as unfreedom) wrong, but neoliberalism cannot deliver the liberty that is supposed to be one of its strong points. Daniel Brook's "The Trap" (2007), Robert Frank's "Falling Behind" (2007), Robert Chernomas and Ian Hudson's "Social Murder" (2007), and Richard G. Wilkinson's "The Impact of Inequality" (2005) all claim high inequality is spurred by neoliberal policies and produces profound political, social, economic, health, and environmental constraints and problems. The economists and policy analysts at the Canadian Centre for Policy Alternatives (CCPA) offer inequality-reducing social democratic policy alternatives to neoliberal policies.

The invisible hand of the market and the iron fist of the state combine and complement each other to make the lower classes accept desocialized wage labor and the social instability it brings in its wake. After a long eclipse, the prison thus returns to the frontline of institutions entrusted with maintaining the social order.

Critics allege that neoliberalism holds that market forces should organize every facet of society, including economic and social life, and promotes a social darwinist ethic which elevates self-interest over social needs. Santa Cruz History of Consciousness professor Angela Davis and Princeton sociologist Bruce Western have claimed that the high rate (compared to Europe) of incarceration in the U.S. – specifically 1 in 37 American adults is in the prison system – heavily promoted by the Clinton administration, is the neoliberal U.S. policy tool for keeping unemployment statistics low, while stimulating economic growth through the maintenance of a contemporary slave population and the promotion of prison construction and "militarized policing." David McNally, Professor of Political Science at York University, argues that while expenditures on social welfare programs have been cut, expenditures on prison construction have increased significantly during the neoliberal era, with California having "the largest prison-building program in the history of the world." The scholar Bernard Harcourt contends the neoliberal concept that the

state is inept when it comes to economic regulation but efficient in policing and punishing "has facilitated the slide to mass incarceration." Both Wacquant and Harcourt refer to this phenomenon as "Neoliberal Penality."

The Clinton Administration embraced neoliberalism by pursuing international trade agreements that would benefit the corporate sector globally (normalization of trade with China for example). Domestically, Clinton fostered such neoliberal reforms as the corporate takeover of health care in the form of the HMO, the reduction of welfare subsidies, and the implementation of "Workfare".

Neoliberal policies advanced by supranational organizations have come under criticism, from both socialist and libertarian writers, for advancing a corporatist agenda. Rajesh Makwana, on the left, writes that "the World Bank and IMF, are major exponents of the neoliberal agenda" advancing corporate interests. Sheldon Richman, editor of the libertarian journal *The Freeman*, also sees the IMF imposing "corporatist-flavored 'neoliberalism' on the troubled countries of the world." The policies of spending cuts coupled with tax increases give "real market reform a bad name and set back the cause of genuine liberalism." Paternalistic supranational bureaucrats foster "long-term dependency, perpetual indebtedness, moral hazard, and politicization, while discrediting market reform and forestalling revolutionary liberal change." Free market economist Richard M. Salsman goes further and argues the IMF “is a destructive, crisis-generating global welfare agency that should be abolished." "In return for bailouts, countries must enact such measures as new taxes, high interest rates, nationalizations, deportations, and price controls." Writing in *Forbes*, E. D. Kain sees the IMF as "paving the way for international corporations entrance into various developing nations" and creating dependency. He quotes Donald J. Boudreaux on the need to abolish the IMF.

Protest

In a dramatic act of defiance against neoliberal globalization, South Korean farmer and former president of the Korean Advanced Farmers Federation Lee Kyung-hae committed suicide by stabbing himself in the heart during a meeting of the WTO in Cancun, Mexico. Prior to his death he expressed his concerns in broken English:

My warning goes out to the all citizens that human beings are in an endangered situation that uncontrolled multinational corporations and a small number of bit WTO members officials are leading an undesirable globalization of inhuman, environment-distorting, farmer-killing, and undemocratic. It should be stopped immediately otherwise the failed logic of the neo-liberalism will perish the diversities of agriculture and disastrously to all human being.

Trade globalization is a type of economic globalization and a measure (economic indicator) of economic integration. On a national scale, it loosely represents the proportion of all production that crosses the boundaries of a country, as well as the number of jobs in that country dependent upon external

trade. On a global scale, it represents the proportion of all world production that is used for imports and exports between countries.

- For *an individual country*, trade globalization is measured as the proportion of that country's total volume of trade to its Gross Domestic Product (GDP):

$$\frac{Imports + Exports}{GDP}$$

- For *the world as a whole*, trade globalization is the share of total world trade in total world production (GDP), where the sums are taken over all countries:

$$\frac{\sum Exports}{\sum GDP}$$

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Definition

Preyer and Bös provide a simple operationalization of trade globalization as "the proportion of all world production that crosses international boundaries". Chase-Dunn et al. note that trade globalization is one of the types of economic globalization, and define trade globalization as "the extent to which the long-distance and global exchange of commodities has increased (or decreased) relative to the exchange of commodities within national societies", and precisely operationalize it as "the sum of all international exports as a percentage of the global product, which is the sum of all the national gross domestic products (GDPs)." Erreygers and Vermeire define trade globalization as "the degree of dissimilarity between the actual distribution of bilateral trade flows and their gravity benchmark, determined only by size and distance." They note that trade globalization would be maximized in a situation where only size and distance affected the intensity of bilateral trade flows - in other words, in a situation where neither trade barriers nor other factors would matter.

Babones notes that trade globalization is the indicator of a country's level of globalization most commonly used in empirical literature. Data for most countries in the modern era are available from the World Bank World Development Indicators database.

Trend

Chase-Dunn et al. note that there have been cyclical waves of trade globalization, with declines corresponding to wars and economic depressions, and that there has been a steady trend over the centuries for trade globalization to increase. With regards to the modern age, trade globalization increased until 1880, then decreased until 1905, increased again until 1914, decreased during World War I, increased until 1929, decreased until the end of World War II, and has been growing steadily since. They note that the main explanatory factors in this trend are the continued decline in transportation and communication costs, and stability provided by the "hegemonic system" supportive of trade in recent world-systems. Decreases can be explained by wars, and periods of conflict and tension often leading to them, where international actors cannot reach consensus on trade agreements and usually give into to protectionism.

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