

## LIBERALISM AND GLOBALIZATION

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### **Abstract:**

*The paper presents the close connection that exists between liberalism and globalization. In the first part we make a presentation of the historical evolution of liberalism, starting with the classical economic liberalism continuing with the neo-classical liberalism emphasizing neo-liberalism and within the latter one, the monetarism. In the second part of the paper we present the concept of globalization considered both from an economic and from a social point of view. Among the winners of globalization we notice the transnational companies and among the losers, the under-qualified workers. As a main conclusion we consider that globalization has brought about an increase in the social – economic inequities.*

**Keywords:** liberalism, globalization, monetarism, migration

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### **1.Introduction**

In order to set neo-liberalism in the context of the contemporary liberalism we need to observe its genesis and evolution vertically starting with the classical liberalism continuing with the neo-classical one and reaching thus the different neo-liberal variants but noticing at the same time its horizontal confrontations with other doctrinal megatendencies: Marxism and Keynesism. Globalization represents the free circulation of commodities ,money ,technology ,information and to a lesser extent work force.

### **2.The economic liberalism**

From a retrospective point of view the economic liberalism born approximately three centuries ago went through three main stages: a) the classical liberalism started during the second half of the 17<sup>th</sup> century spanning two thirds of the 19<sup>th</sup> century; b) the neo-classicism or marginalization spanned the last third of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century; c) the neo-liberalism imposed itself to the forefront of the economic doctrines in the last three decades of the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup> century.

a) The classical economic liberalism has its origins in the work of the French physiocrats and of the English economists A.Smith and D.Ricardo. According to the economists P.A.Samuelson and W.D.Nordhaus” those approaches are classical which lay stress on the strong forces of self-adjustment in economy.”...”According to the classical approach prices and wages are flexible and that is why the economy evolves rapidly towards a long-term equilibrium”. (Samuelson, Nordhaus, 2000). Besides these paradigmatic features the American economists referred to the classical liberals were advocates of the private property, of individualism and freedom, of the natural order and of the non-intervention of the state in economy. The state has only the role of protecting the private property, of securing the social order and the national interests.

A.Smith and D.Ricardo demonstrated that the substance of merchandise is work and the size of value is determined by the amount of work materialized in the merchandise. In their viewpoint society is divided into three classes: the capitalists, the land owners and the workers. The repartition of income is made according to the position of each class towards the means of production: the capital, the land, the work. The profit is the main driving force of the market economy.

We can say that the classical economists changed the economy into a science with its own object of study with methods of research a unitary conceptual system and specific laws.

We can mention some limitations, malfunctions and inequalities which belong to the classical economic liberalism: the market not the man with its needs is at the centre of the liberal doctrine; the exaltation of the economic freedom has brought about the enrichment of the powerful ones, of the industrialists and the pauperization of the workers; they devised and sustained wrong theories, such as the impossibility of the economic crises, of the full use of labor, of the economic equilibrium automatically established.

b)The neo-classical liberalism or the marginalization

The neo-classical economic liberalism is a continuation of the classical liberalism and at the same time a fierce criticism of “the dirigisme” ever since its genesis.

Among the social-economic factors which conditioned the appearance and the development of the neo-classical school are: the substantial changes in the way the capitalist economy functioned in the last three decades of the 19<sup>th</sup> century following the passage from the free competition to the monopolistic economy; the offer of goods that exceeded the demand and the selling of goods became more difficult than producing them; the conflict between industrialists and fund holders is taken over by the one between capitalists and workers.(Moldovanu, 2003)

In our opinion these factors impose a doctrine which could go beyond the limits of the classical liberalism and confront the socialist orientation and eventually with the one issued by the dirigisme.

It is called neo-classical liberalism in order to point out that it is a stage in the evolution of the economic liberalism but it also represents a discontinuity a break from the classical liberalism. From here to the statement of professors M.Beaud and G.Dostaler that “the neo-classical theory is not theoretically substantiated by the liberalism and does not necessarily lead to it” (Beaud, Dostaler, 2000) -the latter seems to us an exaggeration.

Among the most outstanding representatives of the marginalization are Leon Walras, Vilfredo Pareto and Alfred Marshall.

By the novelties it put forward the marginalization surpasses classicism. Unlike the latter, the neo-classicism goes from consumption to exchange; it replaced the theory of value based on work with the theory of the marginal utility; it included in its research some issues neglected by the classical school such as the rarity as a feature of the economic goods or the role of the psychology in the behaviour of the economic agents; it laid accent on circulation and consumption; it developed the rational economic calculation founding a new economic discipline-the econometrics; it combined the psychological analysis with some procedures and mathematical terms(the marginal calculation),hence the term of marginalization.

The marginalists had limitations and ambiguities among which: ”the vision of the market is that of a mechanical entity inside which individual uncoordinated actors step in ...and the information circulating among them lead to the adjustment of the equilibrium”.(Beaud, Dostaler, 2000).We realize that conceiving the market in this way the marginalists lay accent too much on subjectivity in the economic analysis and attach an exaggerated importance to psychology and individual behaviour; they overrate the micro-economic analysis and the statistics to the detriment of the macro-analysis and dynamism; the absolutization of consumption and demand led them to underestimate production and offer in the market economy; the elimination of the social and political issues from the object of study of economy led them to ignoring certain phenomena such as the crises, the battle for markets, the wealth and income inequities, the social conflicts, the influence of the monopolies promoting a conservatory ideology favouring the capital. (Moldovanu, 2003).By generalizing the voluntary unemployment, the marginalists reached the “inefficiency of the fiscal and monetary policy in fighting unemployment”.(Samuelson, Nordhaus, 2000).

As opposed to keynesism the neo-classics contemplated too easily the passiveness of the state attributing to it only the achievement of some public goals such as the social and the political order and the national defense financed by a system of taxes that should serve only to cover the public expense.

#### c)The Neo-liberalism

Since the 7<sup>th</sup> decade of the 20<sup>th</sup> century the internationalism and the globalization have profoundly transformed the national economies restraining the capacity of action of the states. During this period a simple relationship has come forward between the monetary emission and the going up of prices , the existence of a national ratio of unemployment and the strategic role of the offer were advanced and the strategic role of offer was emphasized. All these analyses converge towards the criticism of the keynesist interventionism and advance the idea of diminishing the role of the state. On these facts a strong liberal counter-offensive sets in. It does not take place only at a theoretical level but it is applicable in the economic policy of the big industrialized states. Margaret Thatcher (1979) in Great Britain and Ronald Reagan (1981) in the USA applied the new economic policies particularly the monetary ones.

The neo-liberalism appeared between the two World Wars. The term was used in 1938 in Paris at the Walter Lippman Colloquium in which took part outstanding representatives of the economic liberalism among which: Ludwig von Mises and Friederich A. Hayek. These economists were joined by other schools of a neo-liberal orientation such as the Freiburg school, the monetarists, the libertarians.

Since the 4<sup>th</sup> decade of the last century the main disputes in the economic thought have been between the keynesism and the neo-liberalism. Between 1933-1975 in the developed countries the economic policies had as a main source the keynesism, whereas the neo-liberalism held a secondary position. During the last three decades of the 20<sup>th</sup> century the keynesist doctrine was in an accentuated decline and the neo-liberalism gained the first place in the economic disputes. The neo-liberal doctrine spread to almost all the countries of the world, particularly after the fall of the socialism(1989).

Firstly, the neo-liberalism directed its criticism against the dirigisme, because the massive intervention of the state in economy instead of ensuring the economic equilibrium infringed on the economic and political freedom of citizens evolving towards dictatorship.

Secondly, it revalued the classical and the neo-classical orthodox liberalism by recognizing its main features: the economic individualism, the market, the continuation of privatization, the reduction of taxes and of the public

expense but at the same time it critically sets a delimitation from it as it defends an abstract economic freedom to the profit of the versatile and of the powerful. The abstract uncontrolled freedom generates the monopolies.

The neo-liberalism accepts a certain role of the state in economy but not the limitation of the economic freedom as asked by the dirigisme; on the contrary protect the market and the competition among economic agents by means of a legislative system.

The neo-liberals make a clear-cut distinction between competition and the” laissez-faire” policy. According to them only the free prices ensure the economic equilibrium, the economic growth and the rational use of all the means of production.(Moldovanu, 2003).

The German neo-liberals also called ordoliberals headed by Walter Eucken took the edification of the social market economy as a practical objective and the representatives of the Freiburg school (L Erhard and W.Ropke), referring to the role of the state in economy launched” the conception of the football team” in which the players are the economic agents and the state is the referee who elaborates the rules and ensures the unfolding of the game according to these rules.

The great inspirers of the neo-liberalism are the economists F.A.Hayek and M.Friedman.

Friederich A.Hayek (1899-1992), a Nobel Prize laureate for economy (1974) was trained as a teacher and researcher in the spirit of the Austrian economic school teaching economic and political sciences in several countries (Austria, Germany, Great Britain and the USA). From the standpoint of the ultra- liberal doctrine he attacks both the dirigisme and the socialism.

He remained in open polemics with Keynes ever since 1930. In his best known work” The Road to Servitude”(1944), F.Hayek considers as unacceptable a mixed social system in which the market economy could co-exist with the intervention of the state in economy, because both competition and the centralized leadership become principles which provide alternative solutions for the same problem, and their mixture means that neither could be really used and the result would be worse than relying on whichever of the two systems.

Socialism is criticized owing to the centralized planning where the stimulating role of the private initiative in the social economic development is ignored. ”There will be no social or economic problems which will not be political as well and solving them will depend exclusively on the coercive authority of the state. ”In this way ”socialism prepared the instruments of the totalitarian reign.” (Hayek, 1993).

The synthesis of Hayek’s doctrine on society and economy is exposed in his work ”Law, Legislation and Freedom” published between 1973-1979). In his view the freedom is the supreme value in a prosperous economy. In the neo-liberal doctrine

freedom means people’s possibility of pursuing their goals of making economic transactions based on ”the reign of the law”. In this way the state ensures the public services, the social order, the national defense and the legal framework for the economic competitors.

F.A.Hayek’s doctrine about the market economy and the liberal order is exposed in the theory of the ”catallaxy”. According to him the term economy (in Greek= house, household), implying a person’s authority is outdated and does not correspond to the new realities. As a result he suggests that the term ”market economy” should be replaced by that of” catallaxy” (in Greek=change). According to the author the catallaxy is an economic system which can automatically adjust itself primarily through prices, that is ”a system of telecommunications among the economic agents, a machine to register the changes in economy”. (Moldovanu, p.188). ”The spontaneous order” is the very essence of the market economy, whereas ”the guided order” is the mechanism of the economy on command.

Without denying the active role of the state in economy Hayek is against the state intervention through measures which would prevent the free functioning of the market. Regulating the amount of money is achieved only through the free interplay of the market forces and the elimination of the state’s discretionary policy in the monetary issue. He is against the state monopoly in the monetary emission considering that this operation should be incumbent on the private banks.

In the fiscal policy out of the three categories of taxes Hayek accepts only two: the ones which cover the administrative expense and the ones for public assets: education, health, culture, but he rejects the category of taxes called ”directed ”to social justice used by the state for the re-distribution of income to the benefit of some social groups regarded as disadvantaged. (Suta-Selejan, 2000).

According to the Austrian economist the economic efficiency is incompatible with the social justice as the first one refers to a more rational use of resources based on the spontaneous mechanism of prices, whereas the latter refers to the state intervention in re-distributing the income which harms the efficient functioning of the market economy through the free interplay of prices. The main function of the state is the creation of the legal framework which would ensure the competition of the economic agents.

The Monetarism The decline of the keynesism, beginning with the generalization of the stagflation in the 1970s gave an impulse to the monetarism. The monetarism is a neo-liberal economic micro-trend made up of several schools. The metalist monetarism promoted by the French economist Jacques Rueff suggested the return to the monetary system gold standard. A budgetary monetarism was sustained in the USA by K.Brunner and in England by professor Minford. The best known monetarist school is the one in Chicago whose mentor is the economist Milton Friedman, a Nobel laureate (1976) for his contributions in the field of the monetary theory.

The monetarism started its offensive against the keynesism on all fronts a phenomenon called “monetary counter-revolution” in the economic sciences. This offensive was largely determined by the necessity of finding an efficient solution to inflation. As a result the monetarism is not only a theoretical reaction but also first of all a practical one. While under the American presidents J.Kennedy and L.Johnson a keynesist type of policy was promoted, after the advent to power of R.Reagan the American economic policy was influenced by the monetarist doctrine. (Moldovanu, 2003).

The American economists Samuelson and Nordhaus comparing the two schools show that “they contradict one another primarily about the factors which act on the aggregated demand. The monetarists sustain that this is influenced by money and the impact of the monetary mass on the aggregated demand is durable and certain. The keynesists consider that the situation is more complex...that money determines production together with variables such as the fiscal policy and exports. Secondly, they contradict one another about the aggregated offer. The keynesists lay emphasis on the inertia of prices and wages. The monetarists appreciate that they exaggerate their rigidity”.(Samuelson, Nordhaus, 2000) .

According to the monetarists the prices and the wages are relatively flexible. While the keynesists believe that a change in demand will significantly influence production and will produce a weak effect on prices on a short term the monetarists sustain on the contrary that a change in demand will result in a change of prices more than of quantities. Essentially the monetarism is characterized by the following features: i) an increase in the money offer is the determinant factor in the increase of the GDP expressed by “only money matters”; ii)the prices and the wages are relatively flexible; iii)the private sector is stable. (Samuelson, Nordhaus, 2000).

Another important element criticized by the monetarists at the keynesists refers to the state intervention in economy. Most fluctuations registered by the nominal GDP are a result of the actions of the state. The measures taken by the authority in order to influence the demand have a delayed result and due to these time lapses the anti-cyclic policies lead to instability. By contrast the private economy left to freely develop is not prone to instability. Consequently, in the monetarist view the state interfering in the market economy exercises only a perturbing influence. The danger of dictatorship exists in the interventionism itself, favouring corruption and some economic agents to the detriment of others. The monetarists are also against the state interference in settling prices against subventions for private enterprises and against the social policy that aims at offering material support to disadvantaged categories.

However the monetarists accept a certain interference of the state in economy on the monetary mass. The golden rule suggested by M.Friedman is an increase of the monetary mass with a certain percentage annually, the public announcement of it and maintaining it for a long period of time. In our opinion M.Friedman and its collaborators have indisputable merits in the analysis of the monetary mass, especially through the speed at which money circulates, in the stability of prices and in reducing inflation. Nevertheless, they exaggerated the role of money, sustaining that all the malfunctions of the capitalist economy (inflation, unemployment, crises) are of a monetary nature and can be solved by the control of the monetary mass. The studies made in the last decades show that the harsh monetary policy has had as a result a reduced inflation but with significant social-economic sacrifices.

The Libertarians make up another neo-liberal micro-trend which goes furthest in requesting the restraint of the role of the state taking away from it functions that the classics and the neo-classics recognized (army, health, justice, infra-structure, transports). David,M.Friedman’s son reproached both his father and Hayek their not being radically enough in their anti-state position. (Beaud, Dostaler, 2000). In their view the state can disappear ,only the market remains leading to an anarchism.

### 3.Globalization

Globalization is a complex process by which national economies can be integrated in the world economy some directly, others by the intermediary of the regional groups a process achieved through several main channels, such as the trans-frontier circulation of capital, commodities, technology, information.

Globalization is defined by its main features, namely the compression of space and time, the new technologies and communications, the integration of the financial markets and the movement of capital, the externalization of production and retail, the globalization of some vital issues (environment, organized crime, terrorism, migration, security, peace). Globalization is at the same time a process of reconsideration of the relationships North-South, as well as between the centre and the periphery largely speaking, since in these relationships both the internal and the external relationships are at play among spaces, such as countries, regions or large territories. (Stănescu, 2009).

Globalization is not a linear process but a contradictory one with advantages and disadvantages with winners and losers with wealth ad poverty, unemployment, social and economic inequities with different actors of the political ,economic and social life such as: states, trans-national companies, over-national and international organisms and institutions.

Globalization consists in reducing barriers for the movement of labour and consequently in an increase in the migration flux ,offering workers from many developing countries several opportunities to better their income or the chance to find a job in other countries. Historical experience shows that migration is the most powerful instrument to

diminish the income inequities, by reducing the unemployment in the developing countries and by an increase in the influx of money transfer from migration.

Consequently, an initial schematic analysis shows that there are more winners than losers from globalization. Most people gain from borrowing and consumption and only very few lose as productive workers in the developed countries and capitalists in the developing countries. (De la Dehesa, 2007, pp.302-303).

The contradictory character of the globalization process lies in the inter-conditioning of advantages and disadvantages. Thus, the growing occurrence of the trans-national companies and the intensification of the direct foreign investments, the dissemination of the top technologies and information and of the international commerce lead to an increase in productivity and implicitly to the economic growth and to an increase in the living standard. However, the dominant role of the developing trans-national companies may determine a vulnerability of the economy in these countries and in certain conditions expose it to crises and social unrest.

The main beneficiaries of globalization are the trans-national companies which by transferring some production capacities from the developed countries, by the intensification of the direct foreign investments, by the introduction of new technologies and a performance management in the developing countries obtain in exchange work force and raw materials at a price several times lesser than in the countries of origin.

Globalization means at the same time competitiveness. In order to become competitive the countries in a process of transition and development have to make constant efforts on their own to overcome the backward state of their economies as some states in South-East Asia and Latin America have made.

The countries receiving trans-national companies receive duties and taxes from the latter's activity on their territories which make the state budget revenue grow. Owing to the contribution of the trans-national companies some countries in transition and on the way of development have passed from the category of countries exporting raw materials to the category of countries exporting manufactured products.

#### 4.Conclusions

The neo-liberalism represents the interests of the capital investors and of the employers who preponderantly sustain the benefits of globalization by policies meant to liberalize the financial market, the capital, the technology, the international commerce and attribute to the state a minimum contribution in the social protection.

The neo-liberal orientations of different nuances conceive globalization from the perspective of the free market ,by efficiently using the world's constantly dwindling resources, by maximizing the world's wealth for all the peoples and social categories. In their view, globalization will bring about a convergence of the economies of the developing countries with the developed ones. The economic integration of the developing countries within the global economy will occur by increasing the rates of economic growth.

Nevertheless, the free market economy does not bring only advantages for all the countries and all the social categories. It develops in a chaotic and contradictory manner with advantages for some and disadvantages for others. If the national states were completely eliminated from the market economy or reduced to a minimum of attributions for the protection of some socially handicapped categories, as some neo-liberal orientations sustain ,then the nation-state would not be able to step in for the correction of anomalies and market economy crises.

Globalization is at the same time a necessary and objective process. To disregard the existence of globalization and remain outside this process as a national state or company would mean a condemnation to isolation and stagnation.

Among the defiances of globalization are on the one hand the liberalization of markets, of the international commerce, of capital circulation, of technologies, of information, capable of generating an unprecedented economic growth and on the other hand globalization triggers a spectrum of social-economic inequities in which the gap between the heavy- industrialized countries and the majority of the developing countries and between the wealthiest social category and the poorest one is continually deepening.

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