

## GLOBALIZATION, EFFICIENCY AND EQUITY IN ECONOMIC ACTIVITY

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*Creșterea interdependenței între indivizi și state a fost o constantă a dezvoltării sociale de-a lungul istoriei, transformările apărând în scopul comunicării și transportului în ultimele decenii ceea ce a accelerat procesul din est până la punctul de a cauza schimbări cu o viteză considerabilă. Luând această realitate ca punct de plecare, prezentăm competitivitatea și coeziunea socială în întreaga lume care încearcă să adâncească consecințele noului mediu global în termenii eficienței și corectitudinii, două scopuri care, tradițional, au fost considerate antagoniste în dezbaterile economice și sociale.*

*The increasing interdependence between individuals and nations has been a constant in the social development throughout history, the transformations had appeared in the field of communications and transports during the last decades and this has accelerated the process in East to the point of causing changes which follow one another with a vertiginous speed. Taking this new reality as departure point, we present competitiveness and social cohesion in a global world, which tries to deepen the consequences of the new global surroundings in terms of efficiency and fairness, two purposes which, traditionally, have been considered antagonistic in the economic and social debates.*

**Keywords:** globalization, efficiency, equity, trilema of the globalization, social cohesion, competitiveness

A dilemma is the situation in which exist two desirable options both incompatible and, therefore, it is necessary to give up to one of them; analogous, trilema is based on the same concept, with the difference that there are three desirable options, impossible to realize them all simultaneously, and as a result at least one of them must be left out.

Lately several economists such as Rodrik and Summers raise the idea of "trilema of the globalization", based on three elements. The first one is the process of economic globalization itself. It is the mechanism by which are increased the interconnections and the interdependences between different national economies.

The second element is the sovereignty, which refers to the fact that the political-historical base of the traditional states refuse to give to the national

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authorities the faculty to adopt decisions important to the political and economic life.

The third feature we'll name it, in this presentation, "the state of the Well-being", in order restrain the compromises which the public sector have assumed with their citizens in the matter of social protection and economic stabilization. Naturally, this process has different dimensions according to the countries, but in Western Europe it reflects the commitment or "social pact" by which the public sector assumed economic and social responsibilities (pensions, unemployment, health and education, etc.). These are part of the "European Union Goods" and other countries also, and when some of them have been rectified, they started to be considered as "legally acquired rights".

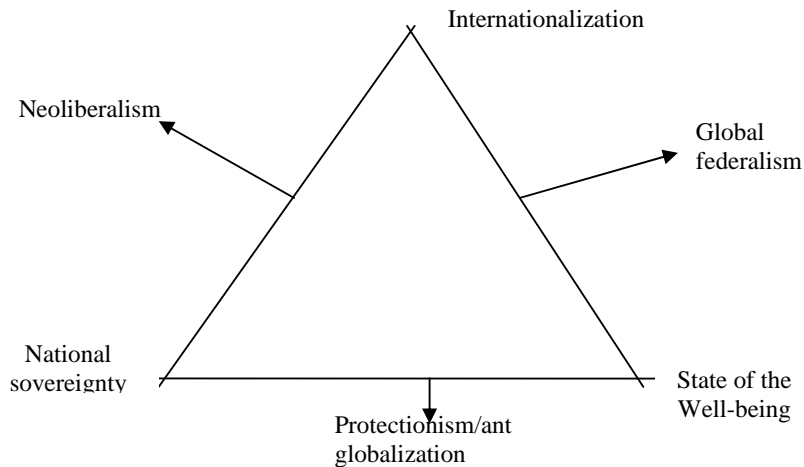


Fig.1. Trilemma of the globalization

The difficulty to reach the three elements simultaneously comes from the fact that jurisdiction of the economic decisions (including commercial, financial and location) passes the specific and the national power and frequently they are judged at the global and international level, while the social-political decisions meant to coordinate the economy and those related to correct and to compensate market's imperfections are not anymore of national competence.

The consequence would be the increasing inefficiency of these policies and the fact that important aspects of the economic life depend on decisions which are adopted outside the national borders (for example a multinational company which transfers total or partially its production to places of the more low environmental the more lax wages or regulations) or they are adopted at over-national level (for example a multinational company which decides "to delocalization" total or partially its production abroad).

There can be some alternative solutions for the globalization trilema. On the one hand, the process of international integration could be abandoned or relaxed.

The proposals "anti-globalization" work for the mechanisms of "disconnection". More smooth versions of this approach praise protective measures, selective or strict in the field of international the financial movements.

A second opportunity of confrontation of the globalization trilema goes in at the level of relaxation of the public commitments in the matter of social protection and macroeconomic stability. The effects of an increasing international competition, transformed frequently into the rhetoric of the competitiveness that is derived from the pressure of the low wages, and of other work conditions, the length of the working day, security struggle or retirement with which it takes place the production in many emergent economies, more and more present in the international economy.

It is possible to have higher wages and to maintain the competitiveness as long as the productivity compensate the differential salaries, thus the true preoccupation is centered around the effects of an increasing absorption of technology, which allows to emergent economies to produce that rank of goods in which their differentiate wages can balance the initial divergences of productivity.

The problem which emerges is the one of the sustainability of labor and social conditions, which increases the cost of the factor works when, in the same time, the pressures of competitive wages and lower work conditions are greater than ever.

In the long term, would act the mechanism of competition and emulation in both senses, while in the emergent economies is probable the intervention of some forces: social, political, cultural unions, which act in direction of an improvement of conditions, which will bring them more close to the standards of developed countries.

The third solution is delicate to national sovereignty's relaxation. The Europeans have experience from our own process of European construction, which has taught to us how to advance in the transfer of sovereignty to supranational institutions, but also we have learned the difficulty of the negotiations on a matter, even between a group of countries close one to another by history, culture, and geography and even with common interests.

But the essential argumentation for the third alternative starts from a simple observation: the loss of effectiveness of the national decisions is because of the global and international environment of many economic decisions. Now we can move socio-political decisions from the national level to the global level (this is what Rodrik calls "global federalism") through a network of rules or multilateral global agreements. For it, the international organisms would have to

improve their legitimacy in the field of democracy and of effectiveness, which is not easy.

The most classic explanations of the international commerce were centered on the interchanges, based on the differences which existed between countries, either on the productivity, production factors, or on different technological stages (like in the approaches of "cycle of the product").

But in the last decades, the interchanges between similar countries have acquired weight in the commercial flows, which deal with similar products: the typical example is that France exports Renault to Germany, while Germany exports Volkswagen to France.

This is an example of "intra-industrial commerce", whose explanations appeal to the advantage of the scale economies, to the satisfaction of some consumers, who have more and more sophisticated requests.

Although genuine can be a theory which explains the intra-industrial commerce from the developed countries, as time has passed more and more countries take part in this commerce by company-company commerce. What changes makes this type of commerce on our problem of effectiveness and equity?

A need to explain the effects of the intra-industrial commerce is the creation of the European Market Common, despite of the catastrophic prognoses which were made on the matter. Some used the "classic theories" to foretell social conflicting changes in the emblematic industries of the European countries, which the new competition revealed that they lacked comparative or similar advantages.

This smaller confliction - to obtain gains of efficiency with smaller confliction on the social cohesion would be associated to that in this scene there would not be clear losers, but that the gains of the commerce would be distributed initially of form more symmetrical than in the classic explanations of the commerce.

The conflict between "gains of long term efficiency" and "cost of short term adjustment" appears in these cases with clarity, specifying, also, how the implied social groups are different; the short term damages fall on the workers who lose their use and the companies that see reduced or eliminated their production, whereas, on the contrary, the gains to means and length term receive the consumers and the companies that are able to surpass the "filter" of the greater competition.

In a centered analytical approach in the heterogeneity inside one it trains - and of which the work of Marc Melitz (2003) is an influential reference states as the commercial opening leads to well-being gains - associated to improvements of the productivity but with distribution problems similar to which finishes commenting: the opening with heterogeneous companies allows the most efficient companies to expand, but less efficient they are subject more competition and they can disappear.

As we commented more ahead, these formulations are revealed suitable to analyze the frequent cases in which the "performance" of companies inside each sector - and not only comparatively between different sectors or industries it presents/displays a heterogeneous evolution, with social problems in which they support worse - or does not support the competition. Figure 2 gathers these results in the formulation of Melitz (2003).

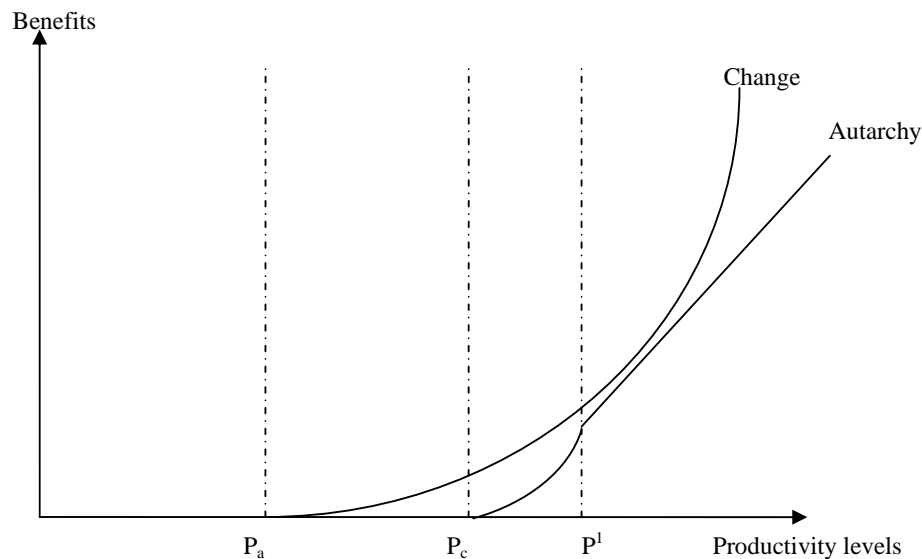


Fig. 2: Effects of the international trade in a model based on productivity differences  
Source: Melitz (2003) (<http://post.economics.harvard.edu/faculty/melitz/papers/>)

The parameter in the horizontal axis gathers the heterogeneous productivity of each company, of minor to greater as we moved towards the right; on the other hand, in the vertical axis the volume of benefits of each company imagines, that depends on its productivity. The figure shows how when going of autarky to the opening to the international trade it varies the guideline of incidence of the productivity on benefits, becoming more pronounced "sensitivity" of these to that one.

Also, after the commercial opening, the threshold of productivity rises necessary to subsist (with the subsequent closing of the less efficient companies in productivity terms) but with more benefits for the most productive companies.

Hummels-Klenow (2005) emphasizes the importance, specially for the developed economies more, of an increase in the "extensive margin" of the exports - that is to say, the incorporation of new varieties, associated often to new companies in the exporting functions, over the denominated "intensive margin"

("more of the same"), as well as the positioning of the economies outposts like product exporter of more quality to prices (slightly) superior.

Increasing internationalization of the companies and creative capacity to differentiate products from form valued by the buyers would be forms to maintain and to improve the competitiveness and the cohesion associated to a "extensive margin" that implies more companies and sectors, instead of a "intensive margin" that could increase the asymmetries between positions of being able economic.

In the next table, we present some dates (available for 1995) for different country who show different positions and very special for each country.

Table 1

**Extensive border and the quality of exports for some country (depending on GIP to the parity of buying power)**

| Country       | Extensive border | Quality (price) |
|---------------|------------------|-----------------|
| Spain         | 0,423            | 1,279           |
| Mexico        | 0,744            | 0,961           |
| Argentina     | 0,350            | 1,029           |
| Bulgaria      | 0,356            | 0,710           |
| Cyprus        | 0,191            | 1,071           |
| World Average | 0,228            | 1,011           |

Source: adjust after Hummels and Klenow, 2005, table A1 (pg 720-722)

Another approach, that recognizes the improvements of efficiency of the commerce, ties its positive impact to the "volume of commerce". Now it would appear one third dimension: the "variety of the commerce" that would reflect as much aspects of competitiveness (more national companies and marks in the global markets) like of cohesion (less asymmetries between "winners and losers" with the international insertion).

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