

FALLACIES AND ECONOMIC ERRORS IN GLOBALIZATION DISCUSSIONS

DAVID SANZ BAS*

Resumen: La globalización es un campo de estudio muy interesante para los científicos sociales. Como suele ocurrir hay muchas aproximaciones a esta cuestión (keynesianos, liberales clásicos, marxistas, etc.) y puede ser estudiada desde varios ángulos (económico, histórico, político, sociológico, etc.). Por tanto, las discusiones están garantizadas. Sin embargo, en estas discusiones suelen aparecer numerosas falacias económicas y errores. En este artículo quiero mostrar algunos de estos errores más comunes que tienden a cometer los participantes en discusiones sobre la globalización. Para ello utilizaré exclusivamente una argumentación lógica. Dividiré las falacias en cuatro grupos: comercio, estadísticas económicas, pobreza y escasez de los recursos naturales y crecimiento poblacional.

Palabras clave: Globalización, comercio libre, proteccionismo, crecimiento económico y recursos naturales, pobreza, ayuda exterior, estadísticas.

Clasificación JEL: F35, C0, I32, I38, Q34, F10.

Abstract: Globalization is a very interesting field of study for social scientists. As usual, there are several approaches to this endeavor (Keynesian, classical liberal, Marxist, etc.) and it could be studied from various angles (economical, historical, political, sociological, etc.). Therefore, controversies are guaranteed. However, in these discussions about globalization, several economic fallacies and errors normally appear. In this paper I want to point out some of these common mistakes that participants in globalization discussions are prone to make and I want to show why I believe they are wrong. In order to do that, I am going to use logical claims to try to demonstrate my points. I am going to divide the fallacies into four groups. The first topic is trade. The second subject is economic statistics. The third point is poverty. The fourth group is scarcity of natural resources and population growth.

* Ph.D. in economics and professor of economics at *Universidad Católica «Santa Teresa de Jesús» de Ávila* (Spain) (e-mail: davidsanzbas10@gmail.com). I want to thank Daniel Luna, Jose Ignacio del Castillo and Jennifer Nylen for their valuable comments.

Key words: Globalization, free trade, protectionism, economic growth and natural resources, poverty, foreign aid, statistics.

JEL Classification: F35, C0, I32, I38, Q34, F10.

I INTRODUCTION

Globalization is a very complex phenomenon.¹ Billions of actors with different individual plans are involved in this process and economic changes happen quickly. This is a very interesting field of study for social scientists. As usual, there are several approaches to this endeavor (Keynesian, classical liberal, Marxist, etc.) and it could be studied from various angles (economical, historical, political, sociological, etc.). Therefore, controversies are guaranteed. However, in these discussions about globalization, several economic fallacies and errors normally appear.

In this paper I want to point out some of these common mistakes and to show why I believe they are wrong. In order to do that, I am going to use logical claims to try to demonstrate my points. I am going to divide the fallacies into four groups. The first topic is trade. The second subject is economic statistics. The third point is poverty. The fourth group is scarcity of natural resources and population growth.

¹ Globalization is a process that emerges spontaneously. The main feature of this process is the increasing unification of the world's economic order through the reduction of such barriers to international trade as tariffs, export fees, and import quotas. This progressive integration enhances a greater world division of labor and knowledge and, therefore, allows greater efficiency, specialization and competition. All of this is possible because of the improvements in communication, transportation and a more market-friendly approach to the economy. Also, globalization brings about a process of cultural and social integration. It is important to stress that globalization does not have any particular goal. It is just an open and spontaneous process that began in prehistoric times with the first trade relationships among different tribes and continues today between different companies and individuals.

II FALLACIES AND ERRORS ABOUT TRADE

Global trade is one of the main features of globalization, if not the most important. Trade, be it global or local, has been largely misunderstood by many philosophers, politicians, common people and even by some social scientists. It has often been blamed as a source of social problems, exploitation and unfairness.² Is trade responsible for all of this? Let's analyze some of the common errors involved in these views.

1. Voluntary exchange is not a zero-sum game

Let's imagine that Sue buys a computer from Bill Gates for \$500. Who won in this transaction, Bill Gates or Sue? It might be surprising, but both Bill Gates and Sue have won in it. Value is a subjective appreciation of our mind and voluntary exchanges can only take place when different people value things in different ways. In this transaction, it is obvious that, at least *ex ante*, Sue values the computer more than the 500 dollars and Bill Gates values the 500 dollars more than the computer. If this were not the case, then this exchange would not have taken place. And also, if Sue and Bill Gates' *ex ante* expectations were correct (i.e. that they received what they expected and that they are satisfied with what they received), then we can state that both of them are better off after the exchange. This should not surprise anyone because that is why they agreed to do the transaction. Thus, if there are no false expectations and if there is no fraud involved, then voluntary exchanges *always* create wealth among the participants because it allows them to achieve their subjective ends. This statement has three consequences.

The first consequence is that trade is a positive-sum game.³ Or, in other words, all of the participants win. People that have

² Friedrich Hayek's *The Fatal Conceit* (1988) thoroughly examines these views. In particular, see the chapter VI which is titled «The Mysterious World of Trade and Money».

³ In contrast, Poker is a zero-sum game (when one person wins, someone else loses) and war is a negative-sum game (all the participants lose)).

difficulties in understanding this idea usually tend to associate «winning» with «receiving money». However, this idea is mistaken because a) valuations are subjective and b) money is just another commodity that is traded in the market. Thus, human beings value money in marginal terms, that is, they compare the subjective satisfaction of holding a bill of \$5 with having other things like a book, 1 kg of apples or two watch batteries. Hence, John might value his bill of \$5 less than the 1 kg of apples and Anna, the owner of the apples, might have a reverse valuation, that is, she may value the bill of \$5 more than her 1 kg of apples. If this is the case, and if John and Anna reach an agreement, this means that both of them have benefited because of this exchange from their subjective point of view.

Besides, this is also true if what is exchanged for money are labor services. In the labor market, workers trade their time, knowledge and skills for money and entrepreneurs spend their money to pay the workers for their time and expertise. The essence of this exchange is similar to an exchange of apples for money. Therefore, labor market agreements always increase the welfare of the participants. Again, valuations are subjective and only the participants involved in a specific transaction can determine if the exchange is beneficial for them or not. The only thing that we can say as social scientists is that the participants of this labor contract are better off than they would have been without this agreement. And, above all, this is true as long as their professional relationship lasts.

Finally, it is worthwhile to say that, although commerce today is a more complex process than it used to be, the essence of it has not changed at all. Indeed, it does not matter if an explicit bargaining process is involved in the transaction or not. In developed economies, instead of bargaining at the outset of the transaction, suppliers usually decide their price offers and place them on labels attached to their products. Then, buyers decide if these prices are low enough to justify spending the amount of money that they would have to pay in order to buy them. If it is too high, they will not buy these products and, then, sellers would be forced to reduce their price offers in order to persuade the buyers to purchase them. Thus, as we can see, this process is impersonal, but it does involve indirect bargaining. Therefore, it could be said that the modern price

setting system (for example in big malls) is just an institutional arrangement that does not change the essence of trade.

The second consequence of this conclusion (that is, that voluntary trade is always mutually beneficial for both parties) is that it is a universal truth and it is valid regardless of time or place. The geographical location of the exchange and the year or the historical moment is irrelevant. It is always true that a voluntary exchange, without fraud or false expectations, will invariably increase the welfare of the parties involved in it. Thus, this universal truth applies either to a transaction between a Roman trader and an Egyptian in 150 BC or between an entrepreneur and a worker that reached a labor agreement in India one hour ago. Also, it does not matter if the transaction takes place in a black market in the suburbs of Madrid or between someone who lives in Paris and someone who lives in China that reach an agreement through the internet. This is a necessary implication because it is unthinkable that two persons would reach a voluntary agreement in any time or place if one or both of them were not expecting *ex ante* to gain something from it.

The third consequence of this conclusion (that is, that voluntary trade is mutually beneficial for both parties) is that it is true even though these two parties do not have a similar income level. Or, in other words, if a rich person and a poor person do a voluntary exchange, then both of them are going to be better off. Thus, if a wealthy German entrepreneur in Berlin hires a poor young Turkish immigrant as a maid, then both of them are better off after this exchange. The same is true if there is a commercial exchange between a rich person who lives in the territory called Europe and a poor person who lives in the territory called Bangladesh.

Is everything so simple? Let's look at some possible objections.

A common argument against this reasoning is that supposedly there are lots of transactions in the market that seem to be voluntary, but they are not. Supporters of this view would argue that when, for example, a citizen of Vietnam accepts a job in a Nike factory for a couple of dollars a day, he is not really choosing because he is a «slave» of the circumstances. Therefore, according to these critics, it could not be said that this Vietnamese is better off working in that Nike factory because he supposedly had no other choice. However, this argument is fallacious. People always

can choose. Before Nike came to Vietnam, people worked in other occupations such as in farming. Therefore, Vietnamese Nike workers demonstrate their value preferences by working at Nike and by not working in the rice fields, for example. Or, in other words, the people in Vietnam are in a better position to decide their personal circumstances than anyone else and when they offer their services to Nike they demonstrate that this is the best option that is available for them. Also, it demonstrates that Vietnamese people are better off with Nike factories than they would have been without them. Thus, Nike is creating wealth in Vietnam. Of course, this does not mean that Vietnamese salaries are high or that life in that country is easy. It just means that voluntary exchanges always create wealth even between a greedy American entrepreneur and a poor Vietnamese worker. Also, it could be objected that, even though it is true that Vietnamese workers and Nike owners are better off with these exchanges, maybe Nike is investing in Vietnam because the government expropriated some land from the farmers and gave the land to the company for free (for example). Of course, in this case, not everyone would be better off. But, we have to put this case aside because it has nothing to do with a free market system. This kind of forced exchange can only happen because of governmental intervention. The term «free exchange» necessarily implies a voluntary agreement. Or, in other words, since the farmers in this case did not give their lands to Nike voluntarily, this is not an example of a free market situation.⁴

⁴ Many people have thought that the movie called *Avatar* by James Cameron is an anti-globalization and an anti-free market film. However, this is a poor interpretation of it because a free market always implies voluntary agreements and in the film there is no such thing between the humans and the Na'vi. As David R. Henderson (2010) explains: «To the extent that it [*Avatar*] makes any statement about capitalism, *Avatar* is a *defense* of capitalism. Capitalism is based on property rights and voluntary exchange. The Na'vi had property rights in the crucial tree and various other properties surrounding it. Did they own it as individuals or as community tribal property? We can't be sure, but probably the latter. They had refused to sell the property to the outsiders. There was nothing the outsiders could give them that would make it worth their while. What should we, if we are good capitalists, conclude? That (...) the people currently sitting on the land value it more than the outsiders. The land is already in its highest-valued use. (...) Surely there would be some finite price that the Na'vi would take in return for the Unobtainium. Maybe, maybe not. But once the Na'vi have made it clear that they're unwilling to exchange it, that should be the end of things, shouldn't it?»

Finally, it could be objected that in my argumentation I am putting aside negative externalities (like pollution) that might occur in an exchange. This is true, of course, but this is a property rights definition problem. Thus, as soon as property rights are clearly defined, this problem disappears (Huerta de Soto 1986). So, although negative externalities are a very important issue, it does not affect the essential idea that voluntary exchanges improve the welfare of those involved in any transaction.

In conclusion, it could be said that voluntary trade (without fraud or false expectations) *always* creates wealth for all of the participants that are involved. It does not matter if we are talking about sellers and buyers or about employers and employees.

2. Countries do not trade, only individuals do

Has «Spain» ever traded with «France»? The answer is negative. Countries do not trade because countries do not exist, they only exist in our minds. What is actually happening is that Juan (a person who lives in a territory that is called «Spain» by convention)⁵ sends some goods and services (for example, some oranges) to Pierre (a person who lives in a territory that is called «France» by convention) in exchange for other goods and services (for example, euros). The oranges will cross some rivers, valleys,

⁵ It is inaccurate to say that countries are «conventions». In reality, a country is a geographical territory where a group of people hold the monopoly on violence. This group of people is called «government» (Max Weber). The size of the territory of any country depends on many factors (cultural, military, geographical, accidental, etc.). What I am going to argue in this section is that the essence of trade does not change regardless of whether the two parties involved in a transaction live in the same political territory or not. Also, I am trying to demonstrate that it is misleading to forget that only individuals trade. When economists study and discuss the market process, they always refer to concrete individuals such as consumers, entrepreneurs, employers or workers, etc. However, when economists study and discuss international market relationships, they sometimes talk about «legal fictions» (that is, countries) such as Spain, France, Portugal or Brazil. Why do they reason in microeconomic terms in one case, and then change the framework and reason in macroeconomic terms in the other case? This is completely illogical, unrealistic and scientifically fallacious because it implies an unjustifiable change in the methodology.

fields and mountains in order to arrive at the destination of Pierre (the buyer), but the political name of that region is not relevant. The oranges could have crossed other rivers, valleys, fields and mountains to get to a buyer that lives in another part of the so-called territory named «Spain». It would not have changed anything about the essence of the operation. In other words, there is no difference between «international» commerce and «national» commerce because the political borders are fictional and only exist in our minds. Let's suppose that two persons, Pedro and Aloisio, one from Spain and the other from Portugal, exchange products regularly. If for whatever political reason, Portugal and Spain become the same political entity (perhaps a new country called «The Iberian Peninsula»), would this political event change anything about the economic relationship between Pedro and Aloisio? The answer again is negative because their economic relationship would remain unchanged. So, in short, it is fallacious to say that two countries trade. This has never happened and never will happen because it is logically impossible.⁶ Only particular individuals trade. It could be argued that political frontiers and governmental policies have shaped the structure of production that exists in any region. This is true. Indeed, isolated economies are normally totally different from open economies and have their own features, peculiarities and dynamism. However, I think that this does not alter my point. What I am trying to defend is that voluntary exchange is always beneficial for all of the parties involved, regardless of political boundaries. Or, is it not true that if a resident of Florida voluntarily exchanges a book with a resident in North Korea for 1 Kg of meat, are not both going to be better off?

In short, it is an error to distinguish between local and international trade because there is not any economic difference between the two. It could be said that this discussion is silly or pointless, but it is not. When we say that «Spain trades with France», this leads to many fallacies that would never appear otherwise. Let's state some of them.

⁶ Of course, two governments could trade. But, even in this case, it is misleading to say that the countries are trading.

First of all, saying that a certain country trades with another country could lead to a bizarre situation of worrying about the balance of payments between the two countries. Indeed, many people are worried about this issue. However, this is absurd. Let's look at this issue with a different perspective. Many people seem to be extremely concerned about the trade deficit in their own country, but who is worried about the balance of payments between New York City and Boston? Did New York people buy more goods and services from Boston people than Boston people did from New York people this year? If this were the case, probably everybody would agree that it would be absurd for the major of New York City to worry about this issue and to establish tariffs and other trade restrictions to protect New York's producers from Bostonian competition. So, if no one cares about the balance of payments between two cities, why should anyone care about the aggregate balance of payments between a bunch of cities and towns that are located in one geographical territory that we call the USA just by convention and another bunch of cities and towns that are located in one geographical territory that we call India just by convention? Regarding this issue, the great economist Jacques Rueff used to say that governments should stay blind to foreign trade statistics and should never worry about them or adopt policies to change them.⁷

⁷ Of course, countries with fixed exchange rates (for example, China) have to look carefully at their international reserves and the balance of payments could provide useful information. That is, these countries need a trade surplus in order to obtain international reserves and thus increase their ability to maintain the official exchange rate. Therefore, in these cases, it is worthwhile for the central banks to take into account their national balance of payments. However, these kinds of fixed exchange rates are not free market phenomenon, they are monetary interventionism (the same could be said of flexible exchange rates). Indeed, national fiat currencies would never appear in a free market process and therefore all the problems related with them, (lack of reserves, volatility of the exchange rate, etc.), are not strictly speaking, market problems. In a free market world, gold and silver probably would emerge as the international currency and therefore exchange rates as we know them would not exist (Hayek 1937, pp. 17-24 and Rothbard 1963). I would like to clarify this statement with an example. Most economists agree that minimum wage laws usually create unemployment. However, it is obvious that this is not a pure market problem. It is just the outcome of political intervention in the labor market. The same is true with all of the monetary governmental impositions, that is, all the problems associated with a fiat currency are not pure market problems.

Another important conclusion is that there is no such thing as a «favorable balance of payments». This is just an old mercantilist fallacy.⁸ Imports are not «bad» for a country and «exports» are not good for them. In the first place, as it has been said, it is misleading to think that countries exist as separate entities from our minds. What actually occurs is that one human being buys or sells goods and services from another human being who lives in a region that by convention is called by a different name. Thus, both imports and exports improve the wealth (or the subjective utility) of the people directly engaged in these transactions. Therefore, national tariffs and other restrictions to trade always reduce the welfare of the people who otherwise would have bought and sold more products and services internationally.

It could be objected that imports hamper the «national» producers. But, is this a sound argument? Let's suppose that Sue (who lives in a territory called the United States of America by convention) buys a computer from Xiao (who lives in a territory called China by convention). In consequence, Sue did not buy a computer from Bill Gates (who is a producer of computers that, like Sue, also lives in the United States of America, that is, he is a «national» producer of computers).⁹ So, is free foreign trade

⁸ Mercantilism is the economic doctrine that says government control of foreign trade is of paramount importance for ensuring the prosperity and security of a state. In particular, it demands a positive balance of trade. In thought and practice it dominated Western Europe from the 16th to the late-18th century. Mercantilism was a cause of frequent European wars in that time. It also was a motive for colonial expansion. Mercantilist theory varied in sophistication from one writer to another and evolved over time. Favors for powerful interests were often defended with mercantilist reasoning. Mercantilist policies have included: high tariffs (especially on manufactured goods), monopolizing markets with staple ports, exclusive trade with colonies, forbidding trade to be carried in foreign ships, export subsidies, banning all export of gold and silver, promoting manufacturing with research or direct subsidies, limiting wages, maximizing the use of domestic resources and restricting domestic consumption with non-tariff barriers to trade. (Wikipedia)

⁹ I chose the name «Bill Gates» because everyone associates this name with a producer of computers and, therefore, the reader will follow my reasoning more easily. However, let's assume in the next two paragraphs that the Bill Gates we are talking about is just a normal entrepreneur that produces and sells computers only in the United States of America, that is, let's assume that he is not a wealthy and successful entrepreneur.

hampering Bill Gates? Of course, Bill Gates (the «national» producer) would have been better off if Sue had bought the computer from him. However, if Sue buys the computer from Bill Gates because of some restrictions on free trade, it is obvious that Sue would be worse off than she would have been if she had bought the computer from Xiao. It seems to me that there is no logical reason why we should please Bill Gates (the «national» American producer of computers) instead of Sue (the owner of the money who prefers to buy the computer from Xiao, the Chinese producer of computers). But, let's imagine that we agree that Sue's personal preference should be put aside. In this case, why should Bill Gates (the «national» American producer of computers) receive Sue's money instead of someone else who lives in the same region? It is obvious that, for example, Jonathan (who is a «national» American producer of videogames that lives next door to Sue) would be better off if he received Sue's money. So, why should we please Bill Gates instead of Jonathan? Thus, as it can be seen, there is not any clear criteria why the state should favor Bill Gates instead of Sue or Jonathan. But, here the most important question is why should we put aside Sue's freedom to choose where to spend her money (we should stress that Sue is the one who worked hard to obtain her money and wants to buy a computer with it). Therefore, it seems to me that she must have the right to choose the final destination of her money. In short, tariffs and trade restrictions benefit some «national» people (like Bill Gates) and harm other «national» people (like Sue).

It is interesting to continue with this example. Now let's imagine that Xiao (the Chinese producer of computers) sells computers so cheaply among American consumers that Bill Gates (the «national» American producer of computers) is forced to close his business. Is this a bad thing for the people who live in the territory called the United States of America just by convention? The answer is negative. The former customers of Bill Gates are now supplied with better computers (either because they are cheaper or because their quality is better or both). Of course, Bill Gates (the «national» seller of computers) would have to adapt to the new conditions and offer something else (like better computers or other new goods or services) to the customers in

order to receive their money. Thus, Bill Gates will only create value in the market if he offers something of value that other people are willing to pay for. Hence, for the people located in the territory called the United States of America by convention, it would be better that the local (or «national») inefficient producer of computers had gone into bankruptcy because new and better products and services would now be offered in that market by this national producer. Of course, these are not «instantaneous adjustments». Indeed, it sometimes takes time for people to find a new occupation, but this is how markets allocate productive resources efficiently.

There is another interesting question regarding these issues. Would imports of one arbitrary territory ever be permanently higher than exports? Or, in other words, would permanent trade «deficits» occur? The answer is negative. Let's see why. People of one territory (let's say, a territory called Italy by convention) cannot indefinitely buy more products and services from people that live in other territories (let's say, a territory called «the rest of the world» by convention) because Italians have to pay for their purchases in foreign territories (that is, their «imports») with something, that is, with foreign currencies. One way to obtain these foreign currencies is by borrowing it from people that live in the «rest of the world». However, debt accumulation has certain limits. The other way to obtain it is by selling goods and services to people that live in the territory called the «rest of the world». Hence, only if Italians sell goods and services in advance to the people that live in the «rest of the world», will they obtain foreign currencies to purchase goods and services that are produced in the «rest of the world». Thus, as we can see, exports pay for imports. Or, in other words, in order to import goods and services it is necessary to export other goods and services (Hazlitt 1946, pp. 70-74).¹⁰

¹⁰ In addition, one region can receive foreign currencies by receiving foreign investments. But, if we think about it for a moment, any investment implies the purchase of both local goods and local services. For example, if Coca-Cola wants to open a factory in one territory that is called Germany by convention, Coca-Cola would have to buy a certain amount of German services (such as labor services and

Also, it could happen that the fiat currency that is used in a territory (for example, the American dollar) is in high demand abroad just because it is trustworthy. Therefore, the people of this region could trade their currency (that is, paper with the faces of politicians drawn on it) for real goods and services. Would this be a problem? The answer is negative. Indeed, this would be a blessing for these people because they would not have to pay for their imports with exports or, in other words, they would be able to trade real goods for just paper.

Finally, sometimes representatives (i.e., politicians and public servants) of different territories (or «countries») negotiate trade «concessions» or mutual tariff reductions. For example, political representatives of Chile could agree to reduce their tariffs and other trade restrictions with Peru. But, normally they would allow these reductions only if political representatives of Peru do the same thing. However, this line of reasoning is totally misleading. It is erroneous to think in these terms because, even if the tariffs of the territory called «Peru» were to remain constant, the people of Chile would be better off if Chile's trade restrictions with the territory called «Peru» were eliminated. It cannot be forgotten that both the seller and the buyer win with voluntary transactions. Or, in other words, if someone treats tariff reductions in the territory where he lives as a «concession» to the people of another territory, this means that he has not understood what trade is and why voluntary exchange is mutually beneficial. Therefore, this way of talking about tariff reductions only conceals mercantilist prejudices (Ravier 2009, pp. 78-80).

other services from local producers, etc.). It would also have to purchase a number of German goods (such as local buildings and local supplies, etc.). As we can see, foreign investors trade foreign currencies for national goods and services. So, through this process, these German suppliers are «exporting» national goods and services. With these foreign currencies, these German national producers could buy foreign goods and services (or, they could sell these currencies to other Germans who would buy products and services from the «rest of the world»). In conclusion, again, imports are paid for by exports.

3. Two additional mercantilist arguments

Before ending this section, I would like to deal briefly with two common arguments that are used to justify the imposition of trade restrictions: the infant industry argument and the deteriorating terms of trade argument. Let's analyze them.

The infant industry argument states that the nascent industries often do not have the economies of scale that their older competitors from other countries have, and thus need to be protected until they can attain similar economies of scale. Or, in other words, this argument claims that entrepreneurs that want to initiate new industries in a country need temporary protection (such as tariffs and other trade restrictions) in order to have some time to fully develop their potential (which, supposedly, would be impossible without these supports due to the strength of the foreign competition). After this period of economic «maturing», the new industries would be able to compete in the international market and these trade restrictions could be removed. This is a summary of the infant industry argument. Let's examine the flaws of it:

- First of all, even if, in the medium run, we assume that this protectionist policy brings about the development of a competitive industry in a country, during the period of trade restrictions some of the people of that territory would be worse off because they would not be able to buy better products from abroad. If the government favors a few citizens (the entrepreneurs who ask for temporary protection), then it harms other citizens (such as consumers or other entrepreneurs who are denied the ability to freely purchase goods from abroad). Thus, this measure is unwarranted and not everyone benefits by it.
- Second, it is highly questionable how a new industry without any competition and with a captive market would be able to compete in the marketplace by international standards after trade restrictions are removed. The costs and methods of production of these fledgling industries would be adapted to the economic context of an artificial and privileged situation. Thus, it is more likely that infant industries would develop inefficient

and costly production processes and would offer expensive products of mediocre or substandard quality. For these reasons, according to the infant industry argument, the infant industries might not ever be able to shed the trade restrictions since they would not be competitive enough without them. Also, if an infant industry grows enough, many factors of production (labor, capital goods, etc.) are going to be utilized there. Assuming that the removal of the political protection would create huge unemployment among these factors, would any politician be brave enough to eliminate that protection? This is very unlikely because this measure would create social unrest (unemployment, bankruptcies, etc.). Thus, this situation of artificial protection would most likely be prolonged indefinitely (for even decades or more) and consumers and other entrepreneurs would be stuck with the high prices and inferior quality of the products offered by what were, at one time, the «infant industries.»

- And third, it cannot be omitted that the development of an infant industry implies a huge opportunity cost. The privileged industries would divert factors of production, that otherwise, would be able to produce other valuable goods and services. Thus, if the government of a poor country wants to develop a computer industry and erects tariffs to encourage that, this would imply that some of the most competitive factors of production would be employed in an inefficient industry and, therefore, production in other branches (that might be truly competitive) would be reduced. Thus, protectionist policies destroy wealth in a country because they promote an inefficient allocation of some of the scarce resources of that economy.

In short, the infant industry argument is only an alibi for inefficient producers which want a captive market in order to enrich themselves.

Finally, I want to analyze the deteriorating terms of trade argument. This argument basically states that rich countries sell mainly manufactured products to poor countries and poor countries sell mainly primary products to the rich countries. In this situation, supposedly, prices of manufactured products tend to rise and prices of primary products tend to decrease in the

medium and long run. Thus, poor countries would suffer a continuous deterioration in their terms of trade (i.e. every year, they would need to sell a greater amount of primary products in order to buy the same amount of manufactured products). According to this, poor countries need tariff protection in order to counter-balance this tendency and to promote their own national industry. Let's uncover the problems with this argument:

- First, the argument is not empirically true. Prices of industrial products have decreased many times (e.g. cellphones, computers, etc.) and prices of primary products might increase (e.g. in the last decade, prices of many raw materials such as copper and aluminum, have risen substantially). In any case, when prices of an industrial product do increase, then normally the product is higher in quality than it was before so it is not the same product anymore.
- Second, poor regions can use imported capital goods to increase their productivity in the production of primary products and/or begin a process of industrialization.
- And third, poor countries are quite apt to obtain foreign investment from rich countries which creates competitive industries. For example, China, India and other regions of Asia have received extensive investments from foreign countries that have promoted rapid and sustained economic development. Indeed, in the last few decades, the burgeoning economic growth of these nations, which has resulted in highly competitive products, has been a source of alarm for some Western producers.

In short, the deteriorating terms of trade argument is not sound at all. Tariffs and other trade restrictions limit the development of poor countries and invariably impoverish the whole society. However, free trade creates wealth among all the participants that are involved in this activity and there is no reason to oppose to it. Indeed, there are strong reasons to support it. It is worthwhile to end this section by quoting an outspoken critic of protectionism in the 1880's named Henry George who said: «What protection teaches us is to do to ourselves in time of peace what enemies seek to do to us in time of war».

III FALLACIES AND ERRORS ABOUT STATISTICS

Social scientists try to explain the real world. Thus, especially in discussions about globalization, statistics and economic data are a central issue. Therefore, defenders and opponents of globalization utilize statistics in order to prove the validity of their points. Some social scientists believe that this is the only way to create social science. Many times, however, economic statistics regarding employment, incomes, growth, inflation, etc., are not very accurate and to mention this is a huge taboo among social scientists. So, the question is, to what extent are these economic statistics precise or even meaningful? Here, I am going to argue that economic statistics are often more inaccurate than it is normally thought. Thus, in many cases, it would be very naïve to think that we can reach accurate and sound conclusions from these statistics alone. Indeed, I want to defend that economic theory, common sense and logical reasoning are the best tools that a social scientist has to understand the real world. Of course, I am not going to deny the importance of the economic and social data in discussions, but I would like to question the basis of any economic arguments that rely primarily on statistical arrays for the validity of its argumentation. Many (or most) social scientists may be alarmed by this statement. But, I believe that a fruitful discussion about the complex process of globalization must take into account that economic statistics are often very unreliable and, therefore, we must be extremely prudent in drawing any conclusions reached solely by this method.

1. Sources of Errors in Economic Statistics

Let's see why economic statistics are not as reliable as it is normally believed.

First, there are black markets everywhere. The economic data is not directly observable. The collectors of this information have to ask workers, entrepreneurs and renters detailed questions about their incomes, their output, their transactions, the number of

hours they work, their expenditures, etc. However, some people may have incentives (and sometimes strong incentives) to withhold information about their incomes or other economic data due to mandatory taxes, regulations and prohibitions. Many people (entrepreneurs, workers, buyers and sellers) might not always be honest when they state their incomes (or other economic data) because, otherwise, they would have to pay more taxes. Some people want to avoid certain regulations and prohibitions that are costly to them or with which they disagree. For example, in Spain, grocers are not allowed to sell alcohol after 10 pm; however, some of them sell it anyway and they do not declare their sales.

Thus, there are people everywhere who work in the black market and who hide information. There are sectors that are more prone to this kind of behavior. For example, some of these are domestic workers, personal tutors, private academies, tailors, peddlers, driving academies, bars, some farming activities, construction, etc.¹¹ The entrepreneurs, workers, buyers and sellers make secret exchanges in this underground economy. These black market operations exist and they form part of the wealth that is created in a certain territory. Normally, the Gross Domestic Product (GDP) does not include these statistics and, therefore, they systematically undervalue the wealth of the people in these regions. For example, if in a city there are 1,000 maids that do not declare their professional incomes, then the statistics are going to show that the value of the aggregate production and employment figures in this city are lower than they really are.

In addition, the size of these black markets fluctuates depending on circumstances, cultural backgrounds, regulations, etc. Thus, there are territories (or «countries») where the amount of fraud is small and there are places where it is widespread. The extent of the fraud depends of many factors. Let's look at some of them:

- Circumstances could cause people to lie about their personal economic situations. For example, during crises people may tend to hide their incomes and other economic data more often

¹¹ I am putting aside illegal activities like prostitution, drugs and illegal weapons trading which obviously exists everywhere.

than before. Thus, in uncertain economic times, entrepreneurs and workers are, *ceteris paribus*, more willing to make secret labor exchanges in order to evade legal regulations and labor taxes.

- Also, the cultural, educational and philosophical background of the people who live in any given region is a determinant factor. For example, it is not a secret that people from south European countries (Spain, Italy, Greece) are less honest with their incomes than north European people (Norway, Sweden, Germany). For example, in 2008 the Spanish government estimated that the size of the Spanish black market was equivalent to 23% of the Spanish GDP (*El economista* 2/4/2008). Indeed, this has created some political disagreements with other European countries. Since within the European Union, richer members send money to poorer members, the German government has complained that they are sending more money to Spain than they should. Or, in other words, since Spaniards are not as poor as the statistics state, they should not receive so much money from the European public funds. Therefore, the German government has protested about this situation. In any case, it seems clear to me that, if it is true that the real GDP in Spain is 23% higher than the statistics state (and this is just a governmental estimation), the conclusions of all the empirical studies about the Spanish economy that have used this economic data should be seriously questioned.
- Moreover, the size of these black markets depends on the ability of the public administrations to collect taxes and to efficiently gather economic information. How effectively the public administrations can do this fluctuates within the countries. Thus, the ability of the USA government to efficiently obtain this information is probably much higher than that of the Kenyan government. American tax collectors probably oversee the economic activity more closely, so this reduces the overall size of black market operations. Therefore, if this hypothesis is true, then we can say that the economic data in America is more accurate than it is in Kenya. Or, in other words, Kenyan citizens probably could conceal their incomes more easily than American citizens. Thus, the Kenyan GDP statistics

would, *ceteris paribus*, underestimate the real wealth of Kenyans in a much greater degree than the American GDP statistics because the Kenyan black market would be bigger in relative terms than the American one.

- The size of these black markets also depends on the number of regulations. Economic regulations vary greatly within countries. Thus, there are places (like Hong Kong) which have many economic freedoms and there are places (like Venezuela) which have many restrictions on economic freedoms. Since black markets tend to emerge in regulated markets more frequently, *ceteris paribus*, the economic statistics of those countries with more economic freedoms are more reliable than of those that have less economic freedoms.

In short, the social process is formed by individuals and sometimes they might have incentives to hide economic information from observers and from the state. These incentives are not the same everywhere and people also are different. Thus, the size of the black market varies depending on the region that is under consideration. Therefore, there is no set rule for correcting these statistical inaccuracies. In conclusion, in my opinion, this black market factor throws into question the real significance of economic statistics.

Second, governments do not always tell the truth because sometimes they have incentives to manipulate the national statistics. There are at least two main reasons why they do this:

- Propaganda. Governments could try to convince their populations that the economic conditions in their countries are better than they really are. The reason could be that these governments want to influence future political processes and that they want to avoid public unrest. For example, in countries with high inflation rates, governments might lie about the actual rate of inflation. Indeed, in Argentina the official rate of inflation is 10%, but Victor Beker (ex-director of Statistics of the Argentinean *Instituto Nacional de Estadísticas y Censos*) and other private consultants estimate that it actually is 25% (Luna 2011). Apparently, Argentines have coined the

expression: «You lie more than the INEC (*Instituto Nacional de Estadísticas y Censos*)» (!).

- Foreign aid. Some governments might try to exaggerate the poverty of their countries in order to receive foreign aid. Therefore, the official economic statistics that they publish might be biased. Regarding this argument, it is important to remember that a large majority of the international aid passes through official channels, that is, they are controlled by local politicians. Also, governments could manipulate their statistics in order to obtain foreign recognition. For example, it was discovered a few years ago that the Greek government deliberately falsified its own budget deficit in order to gain entrance into the European monetary union (Bagus 2006).

In conclusion, governments may have incentives to manipulate the economic data. Of course, in developed countries, official manipulations of the data are probably not as common. But, in some poor countries, it is likely that the economical statistics are manipulated in order to receive foreign aid and to avoid public unrest.

Third, the quality of the economic data is not the same everywhere. For example, the government of the United States (and the governments of other developed countries) spends extensive economic resources and hires thousands of well prepared statisticians to gather economic information (about prices, production, employment, etc.). However, the governments in less developed countries might not spend nearly as much money as developed countries do in this pursuit. Thus, the economical statistics of less developed countries are likely to be done by unprofessional statisticians with meager financial resources. Indeed, in some cases, they might never have studied statistical science and they might be just regular public workers. Therefore, the quality and the accuracy of the economic statistics might vary tremendously from country to country. Or, in other words, it is very likely that the statistics published in rich countries are more reliable than the statistics that are published in developing countries. Therefore, it would be scientifically imprudent to give equal credibility to the statistics published in developing countries.

Fourth, the Gross Domestic Product (GDP) has many problems that cannot be overlooked.

- In the first place, there are methodological problems. For example, the criteria used to classify the statistics for different goods and services, for the job categories, for the companies, etc., might vary within different countries. Also, there are many firms that operate in diverse sectors at the same time. When this happens, it is really difficult to determine what part of their revenue or profit came from which sector. Thus, in these cases, statisticians of each country have to make arbitrary assumptions and there is no reason to assume that all of the statisticians are going to use the same criteria. Thus, some international statistic comparisons might not be correct simply because of these methodological problems.
- In the second place, the GDP is a really inaccurate way to talk about the welfare of a population. First, it assumes that any public expenditure is wealth creation. However, it is very naïve to think that government expenditures always create real wealth. Of course, if we take money in a coercive way (creating it out of thin air, taking it from the economy through taxation or borrowing it under the promise of paying it back with future taxation), we could hire workers and produce awful monuments or subsidize mediocre films produced by national actors (for example). But, should we consider this as an automatic increase in the wealth of a community? The answer is negative. Many public projects are a waste of resources because they imply a huge social opportunity cost (Hazlitt 1946, pp. 3-13). For example, a government could build a highly technological train system in an undeveloped region, but it is very likely that, with all the resources that have been employed in that project (workers, raw materials, capital goods, etc.), other more needed (and more valuable) enterprises could have been pursued (for example, better schools, more food, more clothes, better hospitals, etc.). Since public expenditures do not have to pass through the profit and loss market test (Mises 1949, pp. 200-231), we never know if these public projects are worthwhile. Or, in other words, we never

know if the social benefit that they report justifies their cost. So, there is a problem with GDP statistics that is normally overlooked because they include all public expenditures as if they were real wealth creation, but this is not always the case. Thus, it would be very naïve to count all the public expenditures as if they were genuine private wealth creation. It could be argued that sometimes private individuals buy things and, *ex post*, they change their mind and decide that they do not want to keep the product, i.e. they realize that they have made a mistake in buying it because it is unsuitable for their use. For example, someone could purchase a sculpture and then after looking at more carefully he could decide that he does not like it and that it is unsuitable for him to use. Therefore, this sculpture would not be considered as wealth to the owner of it. Thus, if we want to create a national wealth indicator, we should not include this sculpture in the GDP because it does not have any value. Although this is true, it is worthwhile to say that private expenditures are more likely to create real wealth than public expenditures because any private expenditure is always valued *ex ante* as wealth creation for the owner of the resources that are being spent (see section 2 of this paper). But, of course, people are sometimes wrong in their estimation of the utility of their purchases and, therefore, not all private expenditures imply wealth creation. The conclusion is that the GDP is an inappropriate measure of wealth creation because it only takes into account «expenditures», instead of taking into account whether or not the items that were purchased are valuable and suitable to their owners. Of course, it is statistically impossible to measure this criterion and, therefore, it is impossible to create a truly reliable wealth indicator.

- Besides, another way that GDP statistics are inaccurate is that they do not take into account leisure hours (vacations, holidays, etc.). So, comparing the prosperity of two different economies through the GDP statistics is problematic. Let's imagine two countries, Y and Z, that have the same GDP with the only difference being that Y's citizens enjoy two more weeks of holidays than Z's citizens. It is obvious that, if this is the case,

ceteris paribus, then Y's citizens are going to be better off than Z's citizens. However, just using the GDP statistics to compare both countries would not show that.

- Finally, GDP statistics only take into account market exchanges. Thus, they exclude all kinds of production which is brought forth for one's own use that are not sold in the market, such as farming for self-consumption. The problem with this is that in the undeveloped countries these kinds of activities are more important in relative terms than in the developed ones. Or, in other words, African families are more likely to produce things like clothing, buildings, food, etc., for their own personal consumption than Europeans or Americans. Since these activities are not part of the GDP, African people seem to be statistically poorer than they really are. Thus, this fact makes statistical economic comparisons very problematic. The same thing happens with barter exchanges. Bartering is more likely to happen in undeveloped countries and this trade does not register into the official GDP statistics.

In conclusion, economical statistics are normally inaccurate. Of course, this inaccuracy is much more apparent in the statistics of undeveloped countries. But, the statistics of the rich countries are not as reliable as it is normally thought. The main problem is that the social process is very complex. Besides, economic data are not directly observable and sometimes there are strong incentives for workers, for employers and for governments to hide or to manipulate statistical information. For all of these reasons, economic data cannot be treated as if they were obtained from a laboratory experiment.¹² Thus, there are strong reasons to treat the economic statistics with more scientific caution. What I want to stress here is that the economic analysis cannot depend entirely on the statistical data. Economic theory, logical reasoning and common sense are the best tools that

¹² Indeed, as Friedrich Hayek pointed out in *The Counter-Revolution of Science* (1952), the nature of what social scientists study is completely different from what natural scientists study and, therefore, the scientific approach should be different. Unfortunately, there is not room here for a deeper discussion of this issue.

economists have to interpret the real world. This does not mean that social scientists should not use any data at all in their analysis. Of course, they have to use it, but the error lies in idolizing these figures and in putting aside the principles of economic theory.

IV

FALLACIES AND ERRORS ABOUT POVERTY

Poverty is one of the main topics in any discussion about globalization. Social scientists disagree about the effects of the globalization process among poor people. Some scientists think that this process is mainly positive and others think that it is mainly negative. Also, social scientists have proposed different policies in the attempt to improve or correct some of the supposedly undesirable features of the globalization process regarding poverty. In these discussions, fallacies and errors sometimes appear. Let's examine some of them.

1. Foreign aid programs

Many people believe that poverty could be overcome by sending money from the developed countries to the underdeveloped countries. Here are some of the errors that occur in these arguments:

First, linguistic confusion about the word «altruism». Supporters of foreign aid programs usually justify them by arguing that they are «altruistic» and therefore they are desirable. However, it is not true that these foreign aid programs are «altruistic». The word «altruism» implies that someone gives something *voluntarily* without expecting any compensation. Thus, if someone *voluntarily* donates money in order to help hungry people in Rwanda, then it could be said that this is a genuine act of altruism. Therefore, altruism is in its essence a voluntary act. However, governments raise money through taxation, that is, they use coercion to gather these funds. Thus, even though a government sends some of this

money to poor families in Africa, there is no altruism in this action. Taxpayers are forced to give up their money and we do not know if they would have chosen to donate their money to poor Africans or not. Or, in other words, if Tom steals money from Jonathan to donate it to poor people, it cannot be said that Jonathan is altruistic or that there is altruism in this action. Jonathan has just been robbed. Also, it cannot be said that Tom is an altruistic person because he is just a thief. Therefore, foreign aid programs have nothing to do with altruism because these funds are raised by coercion. Only private donations (made by non-governmental organizations such as the Catholic Church or by philanthropists, etc.) are genuinely altruistic actions. Thus, the claim that there is altruism in these foreign aid programs is just propaganda which is used in order to justify higher taxes. So, even if foreign aid public programs were an efficient and fast way to reduce poverty, it cannot be said that they are altruistic.

Second, monetary fantasies. Many people think that world poverty could be eradicated through public aid programs. Indeed, it is believed that if all of the rich countries would send 0.7% of their GDP per year to the poor countries, then poverty would soon be over. This 0.7% idea was originally proposed by the United Nations in 1970. Thus, according with this proposal, the only thing that we have to do is to give up a minute proportion of our incomes and then hunger and poverty would soon be just a bitter memory of the past. At first glance, it appears that only a very greedy person would disagree with this policy. But, is this view correct? Can we eradicate world poverty through the implementation of the 0.7% proposal? The answer is negative. Economic growth and prosperity can only be achieved through the formation of a more productive economy, that is, through the formation of a more «capitalistic» structure of production (Huerta de Soto 1998, pp. 266-344). That is, the economy of a region can only obtain higher degrees of prosperity if the production processes become more capital intensive and more sophisticated. Poor societies need to increase the division of labor and knowledge in their economies (Hayek 1936) and they need greater levels of saving and investment. This process requires entrepreneurial allocation of resources and a free market framework

(a free price system, stable monetary conditions, protection of private property and an independent judicial system). Or, in other words, poverty and underdevelopment are the result of a low productive structure of production. Let's compare the economy of Germany with the economy of Zimbabwe. On the one hand, the German structure of production is highly specialized. Most of the workers are well prepared, the capital per worker is high and there are literally millions of companies that constitute an extremely complex network. Besides that, an «army» of entrepreneurs are coordinating the whole process and the institutional framework is fairly favorable to the market and the capital accumulation. The result is high productivity, good salaries and prosperity. On the other hand, the structure of production in Zimbabwe is totally different. There is not much specialization in the work force. Production processes are very simple and primarily labor intensive. Therefore, the labor force is not very productive and salaries are minimal. Entrepreneurial freedom is constrained and, in general, there is not a market friendly institutional framework. As a result of these conditions, there is no large-scale network of companies, the division of labor and knowledge is small and the economy remains agrarian. The question is, could an influx of international public aid transform the Zimbabwean economy into an economy like Germany? It seems to me that this is impossible because only through an entrepreneurial process of investment and through a wider division of labor and knowledge could economies develop. The complex network that characterizes the modern economies cannot be created out of thin air by governmental subsidies no matter how big they are.¹³ Only entrepreneurial actions could form a solid structure of production. Indeed, subsidies do not create entrepreneurs, but rent-seekers. No economy has ever developed through subsidies. Thus, the belief that policies like the 0.7% plan could change poor countries into rich countries is a monetary

¹³ This is not possible for the same reason that central planning is not possible: a single person or a small group of wise planners cannot gather and handle all the information that is necessary to formulate a comprehensive plan to coordinate a complex economy (Huerta de Soto 1992, pp. 55-111).

fantasy.¹⁴ People who believe this look only at the statistical incomes of the poor countries and think that if these numbers are improved by Western subsidies, then these countries will bloom. However, they forget that behind the income level numbers underlies a real structure of production that cannot be shifted that easily. Defenders of the 0.7% proposal sometimes state that the German postwar economic miracle (1948-1960) occurred because of the generous Marshall Plan and they state that this proved that public subsidies could promote economic development. However, this argument is fallacious. In the first place, in 1948, German society was already a developed society, that is, the labor force was skillful, entrepreneurs knew what they had to do and there were modern market institutions. Thus, after the Second World War, Germany was not underdeveloped. What happened is that most part of its accumulated capital was destroyed during the war. Therefore, only more capital was needed. In contrast, the situation of Zimbabwe is totally different. Zimbabwe's society is not developed because there are no modern market institutions, the labor force is not skilled, and there is not a well prepared network of entrepreneurs to allocate the economic resources. And in the second place, the importance of the Marshall Plan in the German miracle has been largely overemphasized by the Allied propaganda. For example, Great Britain received almost twice as many subsidies than Germany did and no British miracle happened there (Greenwald and Kahn 2009, p. 46). Of course, the American money had an important effect, but there were more relevant additional factors. The most important was probably the radical free market liberalization that Ludwig Erhard, the German Minister of Economy in those days, carried out in 1948. In conclusion, foreign aid programs such as the 0.7% plan cannot eradicate poverty. This is a monetary fantasy. Only sound economic growth can do that.

And third, unexpected political consequences. Finally, international public aid has some political consequences that sometimes are overlooked. First of all, it is very likely that Western

¹⁴ Indeed, the figure seems to me to be very arbitrary. Why should we send just 0.7% instead of 7% or 70%? It seems to me that it is not possible to calculate the «optimum» amount of foreign aid.

governments sometimes use these funds to influence and manipulate the third world governments. Western governments normally have some political, military and economic interests in undeveloped countries. Thus, it is likely that some Western governments could try to blackmail undeveloped governments by reducing or withholding foreign aid funding if certain conditions are not met. At the same time, it is likely that some undeveloped countries might offer to trade political, military and economic favors for public aid. Or, in others words, what looks like charitable public funding might conceal political control and neo-imperialism. Politicians are people with specific aims and it is hard to imagine why they would not attempt to use every possible means to achieve their political goals. Of course, I am not saying that this is always the case. I am just saying that this is likely to be the case because the incentives are there. Second, whether or not these public funds are traded for some political, military or economic favors, the money normally is distributed to the undeveloped countries through official channels. This means that local politicians control the final destination of these funds. Thus, this money might not be allocated where it would be most useful, but it might be used to achieve some local political goals. Or, in other words, local politicians might use these funds for their own purposes (for example they might only give the money to their own tribe instead of to all the tribes). In addition to this misuse of foreign aid, political corruption in the third world is much higher than in the developed world. Therefore, it is likely that some of this money may end up in the banking accounts of local politicians or it might be used in funding some local wars. And, finally, since this money goes through state channels, it promotes rent-seeking behaviors among the local producers and economic interventionism. Or, in other words, these foreign aid programs divert scarce productive resources from the private sector to the public sector. And it is not clear why a group of bureaucrats and politicians would make better use of these economic resources than millions of private entrepreneurs who have more information about the particular circumstances of the market at any moment and the initiative to follow through with their business plans (Huerta de Soto 1992, 18-94).

In conclusion, foreign aid programs are neither altruistic nor the remedy for poverty. Also, these programs are prone to create some sort of political control by Western governments over third world governments. Finally, corruption is likely to be rampant in these programs and these aid programs do not promote the formation of an entrepreneurial network.

2. The origin of poverty

It is sometimes said that poor countries exist because rich countries exist. Technically speaking, this is true in the sense that wealth and poverty are relative concepts. A person is only «poor» in comparison with somebody else who enjoys a greater amount of goods and services. Thus, in this sense, if all the wealthy people (by a Western standard) disappeared with all their belongings from the face of the earth, the rate of poverty would be drastically reduced because the poor people of the world would not be able to compare themselves with anybody else and feel that they are poor and miserable. Or, in other words, in prehistoric times there were no poor and rich people because everybody enjoyed more or less the same amount of goods and services (that is, almost nothing) and, therefore, there were no income differences. Thus, the concept of poverty changes and evolves throughout time.

But, I do not want to talk about this definitional problem and about its possible paradoxical implications. Here, I would like to criticize the theory which asserts that some societies are rich because they have exploited and are exploiting other societies and that these latter societies are poor because of the exploitation they have suffered and that they are still suffering from this exploitation. Thus, according to this belief, Europeans would be rich only because they had stolen resources and wealth from people of other regions, such as Africans. Although many people defend this vision, it has a host of problems and I believe that it is wrong. Let's see why.

First, it is sometimes argued that Western people are currently stealing resources from the poor countries through international trade. However, as we have explained in the second section of this

paper, if there are no false expectations and if no fraud is involved, then voluntary trade always increases the wealth of all the participants. Thus, business transactions between a European and an African increase the welfare of both of them. Thus, Africans cannot be poor because of the voluntary trade that occurs between Europeans and Americans. Indeed, they are richer than they would have been before because of their economic exchanges with Western people (of course, Western people are also richer than they would have been because of their economic exchanges with Africans).

Second, it is sometimes argued that Western countries became rich by exploiting poor countries during the Colonial period. However, this does not explain why regions such as South Korea, Taiwan or Hong Kong are so prosperous today and they did not have any colonies at all. Also, although European countries like Spain, Switzerland, Luxemburg or Ireland have not had colonies during the last century, they have experienced a significant improvement in their standard of living and today they are rich countries. In my view, the problem with this argument is that it omits the fact that development and growth is a process that requires saving and investment, technological innovation, institutional changes, a sharper division of labor and knowledge and a dynamic entrepreneurial network. Thus, political and military control over another region is not necessary for development. Indeed, the possession of colonies does not imply economic progress. For example, Spain controlled vast regions of the world during the sixteenth century and the Spanish economy did not bloom during that period. Quite the contrary, the huge military cost that the Spanish Crown incurred fighting all the wars (in manpower and in weaponry) probably would have been a burden for the Spaniards of that time. And, finally, it is worthwhile to remember that there are places that used to be colonies and that today have thriving economies like the United States, Canada, Australia and Singapore.

Third, putting aside all the wars that colonialism brought about, it is true that some European countries obtained cheap natural resources from their colonies over many decades and that this fact promoted some economic growth and capital accumulation.

But, is this the origin of the current prosperity of these countries? The answer is negative. Even though these countries accumulated more capital goods than they would have without colonies during the colonial period, this cannot explain the current accumulation of capital. Capital goods depreciate each year and need to be constantly replaced. Thus, in order to maintain high production levels, it is necessary to continually save and invest a certain amount of productive resources. Or, in other words, all the extra capital goods that Great Britain obtained through the control of India (for example), now do not exist anymore because they became obsolete and useless many decades ago. Every year, English people had to save and invest scarce productive resources in order to maintain and increase the productivity of the English structure of production. Thus, even though it is true that Western countries obtained some economic advantages because of their colonial empires, the current prosperity of these countries can only be explained because of the current process of saving, investment and technological innovation.

Third, in discussions about poverty it is sometimes forgotten that poverty is the natural and original condition of mankind. Thus, all the wealth that we see in developed areas (and also in undeveloped areas) is only a happy exception in the history of mankind. Misery was the normal state of things in the past (Hazlitt 1972, pp. 13-19). Indeed, not many years ago, child labor and famines were very common even in countries that today are developed. Thus, Africans are not poor because of European colonization. Africans were poor before Europeans came to Africa.¹⁵ But, in any case, there are reasons to be optimistic about poverty. Even in Africa, more capital goods and new technologies are being more widely used. For example, they have modern goods such as cellphones, computers, electrical power, cars, better medicines, etc. All of these innovations have increased the efficiency of the production processes that are carried on in this region. Besides, it is obvious that there has been an improvement in some

¹⁵ Of course, Europeans took lots of natural resources from Africa. But even if this had not happened, Africans would still be poor because of the lack of economic development.

areas such as in life expectancy, the illiteracy rate, infant mortality, etc. Indeed, the Sub-Saharan population increased from 225 million in 1960 to 751 million in 2005. Of course, Africa is still a very poor place and many people live in dire conditions. However, all of these signals indicate that there are at least a few improvements in the African standard of living.

And finally, it is normally said that the current wealth distribution is unfair because rich countries control 80% of the wealth, while poor countries control only 20% of it. However, this statement is misleading. First, these figures were calculated some years ago. In the meantime, most undeveloped countries have experienced higher economic growth rates than the developed ones. Maybe the best examples are the countries of India and China. These two countries have experienced rapid economic growth in the last few decades and, since the population of these two countries represents one third of the world population, this means that there has been a significant improvement in the standard of living for a large portion of mankind. Besides, other regions like Africa and South America have also experienced higher economic growth rates in the past ten years. Therefore, this 80%/20% disparity cannot be true. But, second, even if we assume for the sake of the argument that these figures were correct, I believe that this would not be an argument at all. Let's think about it for a moment. Why would people think that this 80%/20% distribution of the world wealth distribution is necessarily «unfair»? The problem here is the word «distribution». This word might imply for many people that «someone» has given 80% of the total wealth to the Western world and only 20% of the total wealth to the rest of the people (which are the vast majority of the world population). With this reasoning in mind, many people denounce the unfairness of this situation and defend the redistribution of the world wealth. However, this approach is mistaken. World wealth is not «distributed» by anybody. It is created and owned by its creators. Thus, if residents of a few Western countries enjoy 80% of the world's wealth, this is because they are producing this amount of wealth through their entrepreneurial activity. If we go to New York, Madrid, Paris, London, Berlin, or Tokyo, etc., on any Monday morning at 10 am,

we will find millions of people participating spontaneously in very complex and highly productive production processes which generate tremendous wealth. However, if we go to some regions in Africa on any Monday morning at 10 am, we will also find millions of persons working, but in a structure of production which is far less complex and far less productive. Or, in other words, they are not producing as much wealth as rich regions produce. Thus, the cure to poverty is productivity. Indeed, this 80%/20% vision conceals a tacit assumption about wealth, that is, that wealth is not created by human actions and that the amount of wealth in the world is constant and perpetual. Thus, according with this view, the only problem would be its distribution among the people. However, this is a highly unrealistic and static view. Wealth is constantly consumed by its owners and, therefore, it needs to be constantly re-created. This is why foreign aid programs cannot solve the problem of poverty. Thus, we need a dynamic approach to understand the process of wealth creation.

In conclusion, world poverty was not created by Western countries. Also, the richness of these countries was not attained by robbing the poor people of Africa. The contrary can only be maintained if it is assumed that a) wealth is a given and cannot be created and that b) the market process is a static zero-sum game.

V FALLACIES AND ERRORS ABOUT THE SUPPLY OF NATURAL RESOURCES AND THE POPULATION GROWTH

1. The depletion of natural reserves and energy resources

In 1900 the world's population was 1,6 billion. In 2000 it was 6 billion and some experts estimate that in 2050 it will be 10 billion. Many social scientists have argued that this is an unsustainable trend and that we are going to waste all of the natural resources of the earth. In particular, they have blamed capitalism and globalization for the mass consumption that they promote.

According to these scientists, the Western pattern of consumption cannot be achieved everywhere and this irresponsible behavior is condemning future generations to an existence without these valuable resources. Thus, according to this viewpoint, our current prosperity is just an illusion and, in a few years, mankind supposedly will run out of all of the natural resources and the standard of living will be greatly reduced. And, according to this scenario, the ability of mankind to survive on the earth may be in jeopardy. How can a growing population be maintained with a fixed supply of natural resources? Have capitalism and globalization some built-in limits? How long will our natural resources last? The answer to all of these worries seems to be very rational and intuitive. At first glance, it seems obvious that we are exhausting all of the natural resources and that one day they will be gone. Thus, according to this line of reasoning, mankind would be condemned to extinction (or to the drastic return to a primitive economy) and capitalism would be a dangerous system because of the massive destruction of resources that it promotes. Is this view correct? Are capitalism and globalization the cause of the depletion of the natural resources? Fortunately, the answer is negative. Let's see why.

George Reisman's theory (1990, pp. 63-76) of the economics of natural resources gives us some really good facts with which to face these questions. First of all, it is not true that natural resources are limited. Indeed, they are practically infinite:

Despite the claims so often made that we are in danger or running out of natural resources, the fact is that the world is made out of natural resources –out of solidly packed natural resources, extending from the upper limits of its atmosphere to its very center, four thousand miles down. This is so because the entire mass of the earth is made of nothing but chemical elements, all of which are natural resources. For example, the earth's core is composed mainly of iron and nickel –millions of cubic miles of iron and nickel. Its oceans and atmosphere are composed of millions of cubic miles of oxygen, hydrogen, nitrogen, and carbon, and of lesser, but still enormous, quantities of practically every other element. Even the sands of the Sahara desert are composed of nothing but various compounds of silicon, carbon,

oxygen, hydrogen, aluminum, iron, and so on, all of them having who knows what potential uses that science may someday unlock. Nor is there [in the earth] a single element that does not exist in the earth in millions of times larger quantities than has ever been mined. (...) There are immense quantities even of the very rarest elements, such as gold and platinum, to be found floating in trace amounts throughout the oceans, for example. What is true of the earth is equally true of every other planetary body in the universe. Insofar as the universe consists of matter, it consists of nothing but chemical elements, and thus of nothing but natural resources. (Reisman 1990, 63)

Also, there is no fundamental scarcity of energy in the world. Apart from the huge reserves of oil and coal (all of the ones we already know about and the ones that we will discover), there are other sources of energy such as atomic energy, hydrogen fusion, solar power, tidal power, thermal power from the earth's core, and still other processes that are as yet untapped. Thus, if we think about it, the supply of energy in the universe is practically unlimited.

So, in short, from the physical-chemical point of view, natural resources and energy sources are not scarce. Indeed, from a human point of view, we can even say that they are practically boundless. Or, in other words, since the earth and the entire universe are made of natural resources and energy, it is absurd to say that natural resources and/or energy are finite or scarce.

So, what is the problem with the natural resources? Are we living in a sort of Eden? The problem with natural resources is strictly one of usability, accessibility and economy. Thus, even though the supply of natural resources is almost infinite, we cannot access a huge proportion of them in an economic way. For example, even though there is nickel in the core of the earth, this resource is not, for the moment, economically available. Hence, at the present time, this nickel is not a natural resource that we could use. Thus, what we need to keep in mind is that the supply of natural resources is practically infinite, but the portion of it that we can economically use is really tiny.

This little share of the natural resources that we can economically use increases as man expands his knowledge of and

physical power over the world and the universe. That is, the ability to utilize a greater part of this practically unlimited supply of natural resources for our purposes depends on the state of scientific and technological knowledge and the quantity and quality of the capital equipment that is available.

Here is an example that will clarify this idea. It is normally thought that coal is scarcer today than it was before the Industrial Revolution because of the huge consumption of this natural resource during the last 250 years. However, this is not true. In 1750, coal was very scarce for any English entrepreneur. In the first place, miners had low quality equipment (handcrafted picks, no high explosives and no electricity, etc.) and they did not receive appropriate training. Moreover, there were no professional engineers to supervise the mining process and the materials that were used to build the mines were of inferior quality. In addition to these handicaps, the technology of that time only allowed the extraction of coal ores of a certain purity. Finally, coal could only be extracted from places with accessible transportation (such as near big rivers or near the coast, etc.) within suitable proximity to the factories (for example, for an English entrepreneur in 1750, it was not profitable to import coal from mines located in Chile). Thus, with all of these limitations, miners could only dig a few meters under the surface and only in certain parts of Europe where the ore's purity was high enough and the transportation cost was cheap enough. Therefore, English entrepreneurs could only access a few certain mines of coal. Hence, coal was not abundant at all, it was really scarce. Now, let's think about the actual supply of coal. Nowadays, we have well prepared miners and engineers. In addition, they use really sophisticated capital goods (bulldozers, potent explosives, computers, etc.). Technology allows the extraction of coal from coal ores of lesser purities. Finally, current transportation technologies allow us to extract coal from places that in 1750 were thought of as impossible. For all these reasons, today we can dig down hundreds of meters and we can extract coal from many new places. Thus, the current economic supply of coal is much bigger today than before the Industrial Revolution. This is why, even though the world consumption of coal has increased exponentially, today coal is more

abundant and cheaper in relative terms that it was in 1750. Technology and capital accumulation have allowed the multiplication of the supply of coal that we can exploit in an economic way. And this can be said of all the natural resources that we use in our production processes. If this were not the case, taking into account the exponential increase in the world production in the last 250 years, natural resources would have been depleted a long time ago. Or, in other words, of course it is true that the absolute physical reserves of coal in the universe have diminished because of the Industrial Revolution. But, since our scientific knowledge is greater and our capital goods are more abundant and efficient, we can use a huge portion of the almost infinite supply of natural resources in the universe than before. Thus, our use of the supply of these resources has multiplied exponentially in the last 250 years.

One question arises, have we reached the borders of the scientific knowledge and of the perfection and accumulation of capital goods? Is this were the case, obviously, in a few decades then mankind would deplete all the natural and energetic reserves. However, this scenario is very unlikely. Every year we see new scientific discoveries and the accumulation and improvement of capital goods probably will not stop. In 2050, our scientific knowledge and our capital goods will probably allow us to access new reserves of natural reserves and energy resources that today are unattainable. Indeed, we have only just slightly scratched the earth's surface!

It could be objected that these statements are biased by an exaggerated scientific optimism. However, the performance of the mankind in the last 250 years shows us that there are reasons to be optimistic. And, although past events are not a guarantee for the future, I believe that there are reasons to be optimistic. Indeed, it is worthwhile to say that this fear about the exhaustion of natural resources is not new. Even in Classical times, some social thinkers warned of the depletion of natural resources, but they were obviously mistaken. Or, let's think about the forecast of the Roman Club in the 1970s. They predicted that by the end of last century, mankind would have exhausted a huge part of the earth's natural reserves. Even though they were very intelligent

people, they had a static approach to this issue and this is why their predictions were entirely wrong.

Finally, it could be objected that all of these reasonings are putting aside the environmental problems that might arise in this process of global growth. This is true. However, with better technology and knowledge and better capital goods, we might be able to develop clean technologies or to solve these environmental problems in ways that nowadays we cannot begin to contemplate.

The conclusion of all of this argumentation is that we are only limited by our scientific knowledge and by our capital accumulation which otherwise would enable mankind to access the vast amount of natural resources that the earth contains. Natural resources are practically infinite because the whole universe is made of natural resources and, therefore, I believe that we should face the future with more optimism.

2. The population increase

As it has been stated, in the last two centuries the world population has multiplied in an unprecedented way and this tendency is likely to continue. Many people are scared about these population trends. Is the world too crowded with approximately 7 billion human beings? If in 40 years the world population is going to be 10 billion, where are these extra 3 billion people going to live?

What I want to prove here is that, although 7 billion human beings seems to be a very high figure, it is not. Let's do some hypothetical calculations. Spain's surface area is approximately 500,000 km² and the population density of Madrid is approximately¹⁶ 5,000 people/Km². If the whole territory of Spain had the same population density of Madrid, then the total population of Spain would be 2,500 million citizens (!). Thus, the whole population of the entire world could fit in a territory similar to less

¹⁶ The surface of Spain is 504,645 km² and the population density of Madrid is 5,403.12 persons/km².

than three «Spains» with the same population density as Madrid (2,500 millions $\times$ 3 = 7,500 millions, that is, 7.5 billions). Or, in other words, if the whole population of the world lived in cities as crowded as Madrid, then only 1,500,000 km² of the earth's surface would be used.¹⁷ And, since the world surface area is approximately 148,940,000 km², there is still room for many additional human beings. In conclusion, what I want to show is that the world is not as crowded as it is normally thought. Indeed, it would not be an exaggeration to say that the world is almost empty!

Some neo-Malthusians might argue that it would be impossible to feed all the people if the world's population were to increase so much.¹⁸ Could we produce food for 10 billion, for 20 billion or even for 100 billion human beings? The answer is that we probably could. Again, the limits are not in the earth, but in our scientific knowledge and in the quality and quantity of our capital goods. In this modern day era, we can cultivate food in places that were unimaginable 200 years ago. In addition to these modern advances, the productivity of our farms has increased spectacularly. This is why the predictions of Robert Thomas Malthus were entirely off the mark. Indeed, today it is possible to cultivate food even without soil by a process called hydroponics (for example, the Spanish regions of Murcia and Valencia incorporate this technology) (Aguilar y Baixauli 2002). Perhaps in the future

¹⁷ Of course, I am not saying that everyone should live within a macro-Madrid that is the size of three «Spains». What I am saying is that if everybody lived in cities around the world with a population density similar to Madrid, the sum of all of these urban territories would equal three «Spains». The rest of the surface would be farms, roads, mines and wild areas (forest, deserts, etc.).

¹⁸ It is worthwhile to quote Paul Ehrlich's predictions in the late 1960's. He wrote a bestseller called *The Population Bomb* that started with this statement: «The battle to feed all of humanity is over. In the 1970s hundreds of millions of people will starve to death in spite of any crash programs embarked upon now. At this late date nothing can prevent a substantial increase in the world death rate...» He predicted a huge famine and proposed sharp population control measures such as a tax scheme in which additional children would add to a family's tax burden at increasing rates for more children, as well as luxury taxes on childcare goods and incentives for men who agree to permanent sterilization before they have two children. Although this author had a lot of influence among people, fortunately, the American government did not follow his advice (see Mascaró).

we will be able to farm the sea (seaweed, for example) or in the Sahara desert or even in high mountains. Or, we may be able to raise animals in a more efficient way (for example, maybe we could use the ocean to create huge and highly productive fish farms). If prices of food increase enough, there would be incentives to find new ways to produce more food. Of course, our knowledge and capital good accumulation might stagnate. But that probably would not happen because of mankind's constant desire to better itself and find more efficient ways to meet the demands that are placed upon it. Therefore, as I said before, there are many reasons to be optimistic.

VI CONCLUSIONS

These are the main ideas that I have tried to demonstrate in my paper:

- Free trade improves the conditions of all of the participants involved in it. And this is true regardless of time, place and income differences. Therefore, there are strong reasons to support it.
- Economic statistics are far from being accurate and we should question the validity of a purely empirical approach to the study of the globalization process. It is important to remember that economic theory, logical reasoning and common sense are the best tools that a social scientist has to understand the real world.
- Foreign aid programs cannot eradicate poverty, only sound economic growth can do that. Also, world poverty has not been created by Western people. Finally, foreign aid programs are a deterrent to entrepreneurship in developing countries because of the behaviors it promotes.
- Natural reserves, nutritional supplies and energy resources are not scarce. Indeed, if humans continue the process of capital accumulation and scientific discoveries, there will not be shortages of any kind.

In my opinion, these are the main fallacies and errors that participants in globalization discussions are prone to make. If all of these points are clear, then this might be the basis of a constructive discussion about the globalization process.

BIBLIOGRAPHICAL REFERENCES

- BAGUS, Phillip (2006): «The Problem of Accuracy of Economic Data». *Mises Daily*, 17/August/2006. Available in internet, <http://mises.org/daily/2280#ArticleTab>.
- BAIXAULI, Carlos and AGUILAR, José M. (2002): *Cultivo sin suelo de hortalizas. Aspectos prácticos y experiencias*. Valencia: Generalitat Valenciana. Conselleria de Agricultura, Pesca y Alimentacion. Available in internet, <http://hidroponianft.webatu.com/REVISION%20BIBLIOGRAFICA/HIDROPONIA/3.-%20HIDROPONIA.pdf>.
- El Economista* 2/04/2008. «La economía sumergida en España supone un 23% del PIB: son 208.000 millones de euros». Available in internet, <http://www.eleconomista.es/economia/noticias/450875/04/08/La-economia-sumergida-en-Espana-supone-un-23-del-PIB-son-208000-millones-de-euros.html>.
- GREENWALD, Bruce C. and KAHN, Judd (2009): *Globalization. The irrational fear that someone in China will take your job*. New Jersey: John Wiley & Sons.
- LUNA, Daniel (2011): «Víctor Beker: Argentina se dirige hacia la hiperinflación», *Libertad Digital*, 22/February/2011. Available in internet, <http://www.libertaddigital.com/economia/victor-beker-argentina-se-dirige-hacia-la-hiperinflacion-1276415185/>.
- HAYEK, Friedrich (1936): «Economics and Knowledge». Reprinted in *Individualism and economic order*, Chicago: The University of Chicago Press, 1980.
- (1937): *Monetary Nationalism and International Stability*. New York: Augustus M. Kelley, 1971.
- (1952): *The Counter-Revolution of Science. Studies on the Abuse of Reason*. Liberty Fund: Indianapolis, 1979.

- (1988): *The Fatal Conceit: The Errors of Socialism*. Chicago: University of Chicago Press, 1991.
- HAZLITT, Henry (1946): *Economics in One Lesson*. San Francisco: Laissez Faire Books, 2006.
- (1972): *The Conquest of Poverty*. New York: Foundation for Economic Education, 1996.
- HENDERSON, David R. (2010): «In defense of *Avatar*», [www.antiwar.com](http://original.antiwar.com/henderson/2010/01/10/in-defense-of-avatar/), 11/January/2010. Available in internet, <http://original.antiwar.com/henderson/2010/01/10/in-defense-of-avatar/>.
- HUERTA DE SOTO, Jesús (1986): «Derechos de propiedad y gestión privada de los recursos de la naturaleza». Reprinted in *Estudios de economía política*. Madrid: Unión Editorial, 2004
- (1992): *Socialism, Economic Calculation, and Entrepreneurship*. Cheltenham, UK: Edward Elgar, 2011.
- (1998): *Money, Bank Credit, and Economic Cycles*. Alabama: Ludwig von Mises Institute, 2006, 2009, 2012.
- MASCARÓ, Antonio: «Grandes controversias de la historia de la ciencia económica (II). Humanistas contra ecologistas», *La ilustración liberal*, nº 9. Available in internet, <http://www.ilustracionliberal.com/9/grandes-controversias-de-la-historia-de-la-ciencia-economica-ii-humanistas-contra-ecologistas-a.html>.
- MISES, Ludwig von (1949): *Human Action*. San Francisco: Fox & Wilkes, 1996.
- RAVIER, Adrián Osvaldo (2009): «Hacia un estudio multidisciplinar del proceso de globalización». *Procesos de mercado. Revista europea de economía política*. Vol. VI, N.º 1, Spring 2009, 43-102.
- REISMAN, George (1990): *Capitalism. A Treatise on Economics*. Illinois: Jameson Books, 1998.
- ROTHBARD, Murray (1963): *What has the government done to our money?* Alabama: Ludwig von Mises Institute, 2008.