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**QUO VADIS GLOBALIZATION?**

***Abstract***

*In this paper, we propose a political-economic approach towards globalization and economic theory. We dialectically arrive to the conclusion that globalization is a process of transforming territorial (national) states into a market state dominated by transnational (or mega) corporations and international (or mega) financial institutions. This represents a new stage in the development of capitalism, a stage we call cybernetic mega-capitalism or capitalism III (Adam Smith’s free market capitalism would be capitalism I and Keynes's state interventionism would be capitalism II). Within such a context, we suggest that the existing economic theory is lost in the labyrinth of such a transition. We are afraid that the dynamic of globalization might transform the existing neoclassical economic theory into neuro-neoclassical economic paradigm that might raise many outstanding issues for both economists and politicians such as the issue of global governance or the issue of democratic deficit.* ***Keywords:*** *globalization, economic theory, dialectics, mega-capitalism (capitalism III).*

***Sažetak***

*U ovom radu predlažemo političko-ekonomski pristup globalizaciji i ekonomskoj teoriji. Dijalektički dolazimo do zaključka da je globalizacija proces transformacije teritorijalnih (nacionalnih) država u tržišne države i da tim procesom dominiraju transnacionalne (ili mega) korporacije i međunarodne (ili mega) financijske institucije. Spomenuto predstavlja novu fazu razvoja kapitalizma, fazu koju zovemo kibernetski mega-kapitalizam ili kapitalizam III (slobodni tržišni kapitalizam Adama Smitha bio bi kapitalizam I dok bi Keynesov državni intervencionizam bio kapitalizam II). U takvom kontekstu, tvrdimo da se postojeća ekonomska teorija izgubila u labirintu spomenute transformacije. Postoji bojazan da bi dinamika globalizacijskih procesa mogla pretvoriti postojeću neoklasičnu ekonomsku teoriju u neuro-neoklasičnu ekonomsku paradigmu koja bi mogla potaknuti mnoga otvorena pitanja kako za ekonomiste tako i za političare kao što je primjerice pitanje globalnog upravljanja ili pak pitanje demokratskog deficita.* ***Ključne riječi:*** *globalizacija, ekonomska teorija, dijalektika, mega-kapitalizam (kapitalizam III).*

**1. INTRODUCTION**

The mainstream economists were more or less silent about the historic transformation of managerial into financial capitalism and the huge discrepancy between real and financial sphere of the globalized world economy. How is this possible? Were there no significant changes from the time of Adam Smith up until now? Are we all prisoners of the neoclassical economic theory, which dominated the economic policy of the 19th century as well as economic policy at the end of the 20th century? At the beginning of the 21st century, the economic prescriptions of the International Monetary Fund (IMF) and the World Bank for indebted countries show a return of the so-called laissez-faire dogma. We share a question asked by Posen (2012): "what the return of the 19th century economics means for the 21st century geopolitics?”. We also agree with Stiglitz’s statement that “Adam Smith was wrong” (Stiglitz, 2012), and that “failing to predict the crisis, the standard macroeconomic models (and the macroeconomists who relied on those models) totally missed calling the most important economic event of the last 75 years. The test of science – economic science or any other science – is the ability to predict. But the theory’s failure was worse than not predicting the crisis: it actually said that these kinds of crises could not occur” (Stiglitz, 2011). In this paper, we want to suggest that capitalism has its own internal dynamic and dialectic both nationally and globally. Dialectic of globalization, as we understand its essence, keeps the whole world in irrefutable transition process from the territorial states to the global market state on its way towards post-capitalistic society. Capitalism cannot be less global without a serious earthquake for the world (global) economy, society and politics. Therefore, we suggest that mega-corporations and mega-financial institutions will dominate the new world order or the so-called capitalism III. Hence the term mega-capitalism. As the first principle of mega-capitalism, we see morbid maximization of profit by the leading economic entities such as above mentioned mega-corporations and mega-financial institutions. We fear that such a new order will be characterized by an ever-growing democracy deficit. Dialectics teaches that mega-capitalism will be ready for the next step of capitalist transformation into a fully-fledged global market society (global capitalism) as soon as mega-transnational corporations and mega-financial institutions become themselves fully-fledged. Economic theory has to follow economic realty. Otherwise, economic theory (and macroeconomic theory in particular) may become a counterproductive force for human development in this century. If the world does progress along the track towards a global market state, then a new Adam Smith will have to resolve the magic triangle: globalization – political sovereignty – economic sovereignty. Taking into consideration these deliberations, we define hypothesis of this paper as follows: the contemporary macroeconomic science is inadequate to confront the challenges imposed by globalization and has no answers for a number of problems and issues which globalization creates for both every nation state and the entire world economy. We need a new macroeconomic theory for a proper governance of mega-capitalism.

**2. THOUGHTS ON THE RELEVANCE OF ECONOMIC THEORY ANDECONOMIC POLICIES**

In the development of economic thought to this date, there has been a fascinating interdependence between economic events, economic ideas and economic policies. One of the most obvious examples of the interaction, since the Second World War, is the change of focus from unemployment (a Keynesian idea and economic policy) to inflation (a Monetarist idea and policy). An analogous change occurred in the acceptance of Phillips curve and Okun's law from the Second World War until 1970 and their replacement by the vertical Phelps curve together with the notion of rational expectations. With the formation of the IMF and GATT, the stage was set for the greatest prosperity the world economy had ever seen. In the years immediately after 1945, the supply curves of national economies showed a positive Keynesian slope. During the 1950s and 1960s, “it came to be accepted wisdom that businessmen were always in a position to set prices at a margin over costs, providing them with a rate of return at which they would be happy to invest more.” According to Marris (1984), the Organization for European Economic Co-operation (OEEC) in the 1961 report stated: “The share of labor, apart from cyclical shift, remained remarkably constant in almost all countries around 1950. With high employment, business has been able to maintain a profit margin.” During the 1950s, it became generally accepted that the Phillips curve (namely, a Keynesian type of economic policy) was entirely compatible with the efforts of national economies to maintain price stability. It is certainly true that, compared with the 19th century, economic liberalism and internal economic equilibrium came to have the priority over the balance of payments equilibrium. Foreign trade and currency values were targeted to achieve positive effects from the foreign trade multiplier and accelerator, in the interest of growth of national economies. Keynesian economic policy at home was supplemented by a growth strategy based on the dynamic approach to the theory of comparative advantage. In the beginning, while the argument for protecting new industries was valid, a policy of importsubstitution was the dominant growth strategy for both small open economies as well as large countries. In time, small open economies that had become the price takers became increasingly geared to an export growth strategy. Eventually they had become not only the price takers but also the rule takers. Focusing on the production of an increasing number of tradable made the small and medium-sized countries ever more dependent, unless the countries concerned had opted for the Prebisch or Myrdal models of isolation from the world economy (with all the negative consequences of such a decision). In spite of this, the output of firms in these small open economies came to constitute almost the entire output of these economies. The process of transnationalization of the world economy had begun. In 1958, the currencies of the European Economic Community (EEC) member states became convertible which resulted with the interdependence of their markets and their economic policies. Soon after, Europe very quickly became a competitor of the USA. From 1960-1965, wages in Europe and Japan (the two main USA competitors), rose between 2 and 6% annually while wages in the USA fell during this period by 0.7%. The new wage relationships caused a balance of payment surplus in the USA, reaching $6.6 billion US dollars in 1964 (Mandel, 1972). However, the acceptance of the concept of full employment based on the slogan “we're all Keynesians now” required an expansionary monetary policy in both the USA and elsewhere. In the meantime, the costs of financing the Vietnam War increased with the result of inflation soon becoming the dominant problem for the American economy. In 1971, for the first time since 1888, America had a trade deficit of $2 billion US dollars. The supply curve of the American economy had become vertical. The world was at that point looking for a new economic policy. When the supply curve became vertical, Keynesianism became counterproductive. Nevertheless, economists continued to try to cure the stagflation through counterproductive Keynesian policies supported by a policy of fluctuating exchange rates. By shifting to fluctuating exchange rates, in an attempt to save Keynesianism, the effect of the Phillips curve deepened the stagflation all over the world. This showed that, although the world might have become interdependent, isolationism was still very much alive. In other words, priority was still given to national interests. The supranational concepts, such as transnationalisation and globalization of the world economy, would gain impetus as soon as the time was ripe. It was certain that at some point (or another) the prosperity of the world economy would end. According to Dumas (1985), “the long expansion of the 1950s and the 1960s consisted, to a considerable degree, of more of the same. This relates directly to the inadequacy of present capacity, not only in the implied need to invest in new industries and write down the capacity in shrinking traditional industries, but also in the need to transform by new investments the productive processes of industries with still saleable products but outmoded methods. Both the incentive to apply advanced labour-saving technology and the actual development of such techniques have to be linked to the large increase in wage costs over the past thirty years." The world economy had to enter into a phase of structural transformation. This was well presented by Schuker in his “American Reparations to Germany” in which he gave a reminder that for 300 years (and more) the world economy had experienced what he called a “long wave”. Long waves went together with the process of capital concentration and centralization (namely, with the growth of firms and their efficaciousness (Schuker, 1988). The natural result of this was that after 1980, Keynesianism was replaced by Monetarism. The new economic credo became “Governments do not solve problems; they are the problem.” An assumption of modern economic policy was that the welfare state had played out its role as the guardian of economic progress and prosperity. The new economic policy operated under the slogan: “The best industrial strategy consists of tough penalties for business failure, high rewards for success and low interest rates without inflation.” Since then, Monetarism (neoliberalism/neoclassicism) became the “mainstream” economic policy. Even so, neoliberalism remains a national economic policy with a national identity. While operating with national economic development goals, it has achieved the structural transformation of the economy in all countries where it has taken hold. During that process, it has led to the centralization of capital and the creation of gigantic companies, an effect not imaginable by the proponents of neoclassical theory. The redistributive effects of the monetarist approach to economic policy, on the example of USA, can be best seen in the observation by Bichler and Nitzan (2012).They suggested that “the current crisis may be the result of capitalists becoming not weaker, but stronger and that capitalist power may be approaching its social asymptote – a level too high to sustain, let alone increase.” In this context, we consider the takeover of US Airways by American Airlines, which was finalized in 2015, to be an example of extraordinary takeover (i.e. centralization of capital) that will occur more and more often in the near future (both nationally and worldwide), as fully fledged global corporations develop and become dominant in the global (airline) industry. Therefore, we doubt the proposition that “capitalist power may be approaching its social asymptote – a level too high to sustain, let alone increase.” Instead, we are inclined to propose that the latest economic crisis is essentially a new moment/process of centralization of capital, this time on a global scale and often supported by inventive pro-static (national) government. An interesting sidelight is how USA government bailout money has let USA transnationals deepen their ties to China. According to Harris (2010), “Goldman Sachs (recipient of government funds) recently paid China’s Greely Automotive $334 million to become a 15.1 percent owner. In turn, this frees up capital for Greely to bid on Ford’s Volvo unit and expand into Europe. For their part, GM recently expanded their Chinese presence with a $293 million buy-in to the FAW Group creating a 50-50 joint venture to produce light trucks. Through all these deals we see how governments funds help promote transnational investments that blur the identity of national ownership”.

**3. DIALECTICS OF GLOBALISATION AND ISTS CONSEQUENCES**

There are many definitions of globalization. All of them focus, more or less, on a country’s integration into the international division of labor and the global integration of productive factors. The KOF Index of Globalization, which was introduced in 2002 and described in detail in Dreher, Gaston, and Martens (2008), measures the three main dimensions of globalization: economic, social and political. It defines globalization to be the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows, including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance, and produces complex relations of mutual interdependence. Bhagwati (2004) defined economic globalization as “the integration of national economies into the international economy through trade, foreign direct investment, short-term capital movements, international mobility of workers and aid workers in general, and international technology flows”. Anne Krueger (2000) defined economic globalization in the simplest possible manner as “a phenomenon by which economic agents in any part of the world are much more affected by events elsewhere in the world than before”. According to Wolf (2005), globalization is “an integration of economic activities via markets. The driving forces are technological and policy changes – falling costs of transport and communications and greater reliance on market forces”. We claim that this and similar definitions of globalization are technical and superficial and do not reflect the dynamics of capital. We are most partial to our own political-economic definition, which says that globalization is a process of the privatization of world economic resources. In addition, if privatization is a political process with economic consequences, often accompanied and favoured by policies of international financial institutions, we conclude that globalization is a process of transforming territorial (national) states into a global corporate market-state as a new stage in the development of capitalism, a stage we named mega-capitalism. Observed under the conditions of contemporary globalization, the global economic crisis is a consequence of the centralization of capital on a global scale, which is now occurring under the conditions of an imperfect global market structure. Consequently, globalization might also be defined as a dynamic process that aligns global production relations (institutional governance arrangements) with global production forces (achieved level of technology).

**3.1. Issues of global governance and economic theory**

As already mentioned, over the course of time neoliberalism has achieved structural transformation of the economy in all countries where it took hold. During that process, it has led to the centralization of capital and the creation of gigantic companies. The process of centralization of capital is an absolute contrapuntal to Pareto optimality and Say’s law! The process is absolutely forgotten if not impossible within the economic doctrine of the neoliberal school. In the book “Capitalism and Freedom”, Friedman (1962) discusses three sources of monopoly: technical considerations, direct and indirect governmental assistance and private collusion. He did not want to contemplate an idea about the internal dynamic of the capitalist economic mechanism that by itself produces a tendency toward both “bigness” and imperfect market structure dominated by oligopolies and monopolies. On the contrary, Friedman states (relying on Stigler’s as well as on Nutter's research) the following: “They conclude that as of 1939, roughly one-quarter of the economy could be regarded as governmentally operated or supervised. Of the three-quarters remaining, at most one-quarter and perhaps as little as 15 per cent can be regarded as monopolistic, at least three-quarter and perhaps as much as 85 per cent as competitive. Within the private sector, on the other hand, there appears not to have been any tendency for the scope of monopoly to have increased and it may well have decreased.” Transnational corporations (TNCs), as the leading bodies of the globalization process, are becoming the basic economic entities of our time. According to the latest World Investment Report (UNCTAD, 2017), international production by TNCs continues to expand. Sales and value added of TNCs’ foreign affiliates rose in 2016 by 4.2 per cent and 3.6 per cent, respectively. In 2016, international production generated value added of approximately $8.4 trillion and sales of around $38 trillion. Foreign affiliates of TNCs employed about 82 million people. The interaction between big business and the government understandably becomes more and more blurred. While in 1990 the financial sector donated $61 million dollars to US political campaigns, by 2006 this was $260 million. The industry that was the next largest donor, health care, gave $100 million in 2006 alone. Of course, rising wealth and campaign contributions were not the only source of rising political power for the financial industry. There was a revolving door between Wall Street and executive appointments in Washington as well (Acemoglu and Robinson, 2013). Similarly, Fukuyama (2014) points out that the rich get richer because they have superior access to the political system and can use their connections to promote their interests. A paper by Vitali, Glattfelder and Battiston (2011) is the first study that has investigated and scientifically recognized the potential economic power of a network of mega-corporations and mega-financial institutions. While analysing a database of 37 million companies and investors worldwide, they picked out 43,060 TNCs and the share ownerships linking them. They then constructed an interconnected web between them through shareholding networks to provide a picture of their economic power. They found that TNCs form a giant bow-tie structure and that a large portion of control flows to a small tightly knit core of financial institutions. Their in-depth research eventually found a dominant core, or super-entity, of 147 companies whose ownership was held by other members of the super-entity (i.e. interlocking stakes of one another) that in turn controlled 40 percent of the total wealth in the network. In effect, less than 1 percent of the companies were able to control 40 percent of the entire network. The top 20 included for example Barclays Bank, JPMorgan Chase & Co., Merrill Lynch & Co., Deutsche Bank AG and the Goldman Sachs Group. The authors conclude: “Our results show that, globally, the top holders are at least in the position to exert considerable control, either formally (e.g., voting in shareholder and board meetings) or via informal negotiations.” They go on: “From an empirical point of view, a bow-tie structure with a very small and influential core is a new observation in the study of complex networks. We conjecture that it may be present in other types of networks where “rich-get-richer” mechanisms are at work.” However, the fact that the core is so densely connected could be seen as a generalization of the “rich-club phenomenon”. Moreover, here is where the real problem starts from the point of view of world economic perspective. The globalization of the world economy leads to the formation of a global market whose main characteristic is imperfect competition with the prevailing oligopolistic market morphology. In an oligopolistic global market, large corporations become both “price makers” and “rule makers.” The market does not determine the behaviour of market participants, as in the case of perfect competition. In fact, the big corporations form, run and share the market between them. The TNCs spread their production around the world in order to minimize production costs, and at the same time use the world demand curve as a source of marginal revenue. While the existing microeconomic theory helps us understand how TNCs operate (Krugman 1991), at the same time an adequate macroeconomic and financial theory of the global economy is not even on the horizon. It is inevitable to conclude that TNCs significantly influence the formation of both macroeconomic and development policies of countries all over the world. Small and less developed countries, in particular, are becoming addicted to FDI – the capital that TNCs and big financial institutions have in abundance. Considering all this, we assume that the global economy does not have a theoretical construct as seen from the so-called macro plan. This, on the other hand, leaves us with several crucial and related questions that are in a need for qualitative answers. For instance, what is optimized in a global economy? Is it GDP? Who’s GDP should be optimized: global GDP or GDP related to individual non-sovereign states that have deprived themselves of their resources during privatization and now have nothing to manage? What about employment? What about optimal allocation of resources at macro-level or what about general equilibrium? We suggest that a magic triangle, globalization – political sovereignty – economic sovereignty, still waits for a proper and functional answer as well as for reconciliation of interests between global and national wellbeing.

**3.2. The issue of democratic deficit**

As we have learned, the history and experience regarding development of both economic reality and economic theory suggest that the strongest interest groups are the ones that define the economic system, economic policy, and economic institutions (Krugman 2013). If the strongest interest groups today exist in the form of corporate power centres, as we believe is the case, then we may suggest, unlike Eichengreen and Leblang (2008) or Braga de Macedo et al. (2013) that the world is heading towards both mega-capitalism and a society confronted with a serious democratic deficit. Usually, in economics we assume that (micro) firms are concerned about maximizing their profit. However, if those firms are huge and dominant, they will produce a morbid application of the first principle of capitalism (i.e. profit maximization) at the expense of democratic deficit. The fundamental principle of parliamentary democracy (i.e. one person – one vote) eventually may turn into a new principle of imperfect market democracy determined by market power: one dollar – one vote. This, in turn, might result in the global cybernetic robotization of workers, a process that could be supported by neuro-economics, which we would define as cyberneticized neoclassical economics applied under imperfect market conditions. The more one country becomes globalized the less that same country is economically independent. The less one country is economically independent, the less that same country is politically independent. Taken dialectically, globalization becomes the process of transition from a territorial (national) state into a global market state with the risk of transforming parliamentary democracy into so-called dollar democracy worldwide.If the system wants to survive this new economic paradigm, such a risk must be taken into account. Otherwise, as Hilferding (1910) suggested, the expropriators might be expropriated, possibly in a nasty way.

**4. CONCLUSION**

Capitalism is a dynamic socio-economic system. Since the time of Adam Smith, the system has survived the Great Depression and entered into its golden age (1945–1970), until it reached its turning point at the beginning of 1980s. During the 1980s and 1990s, Monetarism provided an impetus for the development of huge TNCs and financial institutions. Today, the institutions of global governance are inadequate and/or incapable of dealing with the globalization dynamics and the issues globalization brings to the forefront. We define globalization as a process of transition from the territorial (national) state into market state led by the leading subjects of world/global economy (TNCs and international financial institutions) via privatization of world economic resources. If this truly represents a historical transformation from the world as a unity composed of independent national states into a global stateless world, than such a “brave new world” begs for a new economic paradigm. The globalization process has entrapped economic theory. The so-called capitalism III begs for a new Adam Smith and a new institutional solution for global governance in order to foster the well-being of the global citizen. Otherwise, we are afraid that the dynamic of globalization will soon produce a democratic deficit worldwide. Therefore, the responsibility of economists for creating a more humane world is definitively becoming a serious issue. Such an approach to globalization suggests a departure from standard Samuelson’s definition of macroeconomic science. Nowadays, likewise in 1929, economic theory lags far behind economic reality. Global macroeconomic theory and global financial theory remain an empty hole that needs to be filled up as soon as possible with new and adequate knowledge.

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