

**Globalization and Its Effects on  
Diversity:  
Some Economic Aspects**

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This batch of papers has been presented at the Fifth Conference “Dynamics of diversity in the globalisation era”.

## **Globalization and Its Effects on Diversity: Some Economic Aspects**

### **Summary**

In this study are considered only some economic effects of globalization on cultural diversity. In the face of the existence of evident contrasts in the current economic literature regarding the positive or negative effects of globalization, the accent is placed on its particular validity, mainly identifying the important differences between internationalization and globalization. Such a distinction has led to the close examination of the relationship between globalization and diversity. It has allowed the identification of a "virtuous circle" between the two phenomena and to the distinction between the static maintenance of cultural diversity and the start of a dynamic process of "destructive creation" of diversity, which will not only have beneficial effects in less developed countries but also in those with a great level of wealth, ensuring the homogeneous and constant development of the welfare of the whole of mankind.

**Keywords:** Globalization, Diversity, Internationalization

**JEL classification:** F02, F15, O15

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# **Globalization and its effects on diversity: some economic aspects**

## **Abstract**

In this study are considered only some economic effects of globalization on cultural diversity. In the face of the existence of evident contrasts in the current economic literature regarding the positive or negative effects of globalization, the accent is placed on its particular validity, mainly identifying the important differences between internationalization and globalization.

Such a distinction has led to the close examination of the relationship between globalization and diversity. It has allowed the identification of a "virtuous circle" between the two phenomena and to the distinction between the static maintenance of cultural diversity and the start of a dynamic process of "destructive creation" of diversity, which will not only have beneficial effects in less developed countries but also in those with a great level of wealth, ensuring the homogeneous and constant development of the welfare of the whole of mankind.

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# **Globalization and its effects on diversity: some economic aspects\***

Maria Grazia La Spada†

## **Introduction**

This article will face the theme of the economic effects determined by globalization on cultural diversity. It deals with a very vast subject, widely debated in contemporary literature. A preliminary analysis will concern globalization and its definition.

In order to briefly summarise the numerous conflicting judgments on this phenomenon from many researcher, they will be subdivided on the basis of whether they possess full trust in the market economy. This analysis will permit me to give a definition of globalization that I share.

A contribution to the debate on globalization will be made through a clear separation between internationalization and globalization. This separation will be made on the basis of the influence that the two phenomena have on diversity: the former will be considered as a factor of homogenization of economic systems and therefore of levelling of the cultural endowments of various countries; the latter will be seen, instead, as tightly connected with the diversity on which it depends, remaining an efficient source for the persistence of the same diversity. It deals with a dynamic process I will call: "virtuous circle." Remaining with the dynamics of diversity, another theme that will be dealt with will be that of "creative destruction", thanks to which the relationships between globalization and diversity will not cause a static maintenance of the existing cultural elements. Rather such relationships will bring about a continuous evolution of cultural diversity, essential for the homogeneous and stable development of the world economy.

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## 1. Globalization: conflicting judgments

In the last decade the term globalization has been widely used, not only in scientific economic literature but also on a journalistic and political level.

This term was introduced to point out different phenomena: the development of multinational firms, a wider and wider economic laissez-faire, especially as regards international trade and international finance. It is also used as a synonym for internationalization.

Thus, giving a definition of such a term appears to be particularly difficult and anyone who tries to do so would be considered a presumptuous person. However, to start my article, I necessarily have to face this risk. According to my readings and keeping in mind the theme that I want to deal with, I believe that the term globalization concerns an entirely new economic phenomenon and that it is a dynamic process that will lead to a reality in which all markets will be able to have a global dimension and where the ability to create new markets will become particularly exalted.

The theme of globalization has aroused the development of a considerable literature in which analyses are found with completely conflicting judgments on its validity. Such contrast can essentially be identified in the presence or lack of full trust in the market economy.

Some researchers believe that it is necessary to control the market economy. Globalization, according to such researchers, would make this control impossible, since the global economic phenomena would escape any political and institutional control: each single nation would not have the possibility of promoting a political regulation of the market economy. Thus they cannot see any solution, since the only possibility would be furnished by international organizations. The existing ones were created to Bretton Woods to reach a more limited objective in comparison to those that globalization introduces. Such objectives essentially concerned the developed countries under the conditions of the post-war period and they served so that this countries take back their process of development. Therefore the International Monetary Fund and the World Bank are considered entirely inadequate to manage the problems of globalization. In conclusion, according to the aforesaid researchers it is not possible to foresee their substitution in the future.

The most famous researcher that belongs to this category is Stiglitz<sup>1</sup>, who has broadly

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<sup>1</sup> J. E. Stiglitz (2002), *Globalization and its opponents*, Norton & Company, New York. Recently this author's approach to the globalization is partly changed. He, after having underlined the notable opportunities that globalization can furnish to the development of the world economy, consider it an inevitable phenomenon. Insofar, he sustains the creation of new international institutions, furnishing some concrete suggestions in way that the globalization have positive effects not only on the citizens of the advanced countries but also on these of less developed countries. J. E. Stiglitz (2007), *Making globalization work*, Norton & Company, New York.

criticized globalization considering the dangers and the damage that it can create to be greater than the possible benefits.

Other researchers believe, on the other hand, in the positive effects of the market economy and for them globalization constitutes an important opportunity for it to work in the most efficient way. Globalization would allow the widening of competition which is essential in order to fully realize the benefits identified by economic theory, including that of a gradual levelling of the degree of welfare of all nations.

The greatest representative of such researchers è J. Bhagwati<sup>2</sup>. He introduces some particularly effective reasoning for free commerce and the market economy that would be excited from globalization. Insofar he considers globalization as the undisputed protagonist of the passage of century.

In an intermediate situation there are economists (such as C. Lester Thurow<sup>3</sup>) who, although recognizing the necessity of State intervention in the economy, sustains that single States have the possibility, with appropriate interventions at national level, to reduce the possible negative effects of globalization.

A particular relief has assumed the position of Sen that mostly takes in consideration the enormous existing economic inequalities among nations and in the nations. He considers such situation no more sustainable, also because it has created a reaction of protest that has assumed a global value, especially in coincidence of the international summit to which the representatives of the more developed nations have participated. According to Sen <sup>4</sup> to such reaction only the process of economic globalization can give a concrete answer, assuring those liberties of choice for all the countries that can allow a homogeneous and constant development in the time.

## **2. Globalization and internationalization**

Another important element of the debate on globalization is constituted by the existence of numerous studies that attempt to diminish its importance, with the consequence of hiding the dangers according to some and its favourable effects for others. Such a situation derives from the comparison of the concept of internationalization to that of globalization. Thus they make reference to a single reality that had already been clearly seen in certain historical periods of which the best known are: the XIX century, during which the first industrial revolution was

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<sup>2</sup> J. Bhagwati (2004), *In defence of globalization*, Oxford University Press, New York.

<sup>3</sup> Lester Thurow C. and R. L. Heilbroner (1998), *Economics explained*, Prentice Hall, New Jersey.

<sup>4</sup> A. K. Sen (2002), *Globalizzazione e libertà*, Mondadori, Milano.

followed by the expansion of means of transport and international finance, as well as migratory movements and the period after the Second World War, which has recorded a high level of development of western nations without, however, reducing the serious economic inequalities still existing with other countries.

In my opinion, the phenomenon of globalization is a new phenomenon that is clearly different from internationalization<sup>5</sup>. The former is sustained by a particular technological progress that mainly concerns information<sup>6</sup>. It allows the spread of ideas and an ample possibility for all countries to acquire suitable technological knowledge. Besides determining the important phenomenon, brought to prominence since the times of Adam Smith, regarding the amplification of existing markets, which leads to wider specialization and therefore to greater productivity, globalization also reinforces the creation of new markets.

The latter is very important for the market economy. It can guarantee a high level of constant development that widens more and more toward other nations. Such a process of creation cannot reach a high level of intensity within the limits of a national or regional economy or even with the internationalization of the world economy, which increases the homogeneity of economic systems. The process of the creation of new markets will be fed instead thanks to globalization, because it can spring from the existing diversity in all the nations involved in the process of development.

In my definition of globalization, I have underlined the importance of the creation of new markets, since for having a constant development without economic crisis, caused by the lack of incentives to investment, the amplification of markets is not enough.

### **3. Globalization and diversity**

A close connection exists, also from the economic point of view, between globalization and cultural diversity. Globalization without diversity, in a homogeneous world in which all nations or regions have the same economic and social structure both on the supply side and on the demand side, though with differences of quantitative level, would simply be internationalization<sup>7</sup>.

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<sup>5</sup> E. Rullani (2006), *Global economics and Post-Fordism*, "Centre for digital discourse and culture", Virginia Tech, Blacksburg, Virginia, U.S.A. In this article other characteristics that distinguish globalization from internationalization can be found.

<sup>6</sup> L. Paganetto and L. Becchetti (2004), *Globalizzazione, rivoluzione tecnologica e commercio Internazionale: le nuove sfide*, in Quadrio Curzio (a cura di), "La globalizzazione e i rapporti Nord-Sud-Est", Il Mulino, Bologna.

<sup>7</sup> U. Pagano (2007), *Cultural globalization, institutional diversity and the unequal accumulation of intellectual capital*, "Cambridge Journal of Economics" 31(5), 649-667. This economist has particularly put in prominence the economic importance of cultural diversity and the danger of a crisis determined by a lack of "bio diversity of capitalism." However he has not clearly distinguished internationalization that would bring to an excessive homogenization from the globalization which not only requires cultural diversity but, as this paragraph will make to see, it is also source of such phenomenon.



Economic development in such a situation would be possible, but it would have the characteristics that we already know about: frequent economic crises due to lack of incentives to investment in the short term and with the perspective of a complete and continuous stagnation in the long term. In the latter situation, the fall in investments will be chronic due to lack of innovation for the creation of new products. This situation was foreseen by great non-Marxian economists, for instance Keynes and Schumpeter. Besides the process of internationalization won't succeed in eliminating the inequalities to economic level among the various nations

On the other hand, in a global economy, where cultural diversity is stimulated with the purpose of avoiding the phenomenon of homogenization, favouring instead the integration of different cultures, economic development would not only be "culturally sustainable". The existence of diversity of cultures, tastes and preferences could assure a variegated demand for products that would slow down the danger determined by the saturation of markets and such diversity could be also the source of a constant process of innovation that would maintain incentives to investment.

This concept is inserted in the general judgments proposed by Unesco, one important organizations of United Nations, which considers diversity both as factor of development and as essential element for the quality of life. In fact, in the third article of its "Universal declaration" affirms: "Cultural diversity widens the possibilities of choice for each person; it is one of the sources of development, understood not only in terms of economic growth, but also as possibility of access to a satisfactory intellectual, affective, moral and spiritual existence"<sup>8</sup>.

Such considerations constitute further economic motivations for cultural diversity, which has been defended also at international level as a characteristic main point. Diversity has been also object of many studies regarding various disciplines as sociology, psychology, ethnology.

#### **4. The effects of globalization on diversity**

A theme on which a widespread debate has developed is that of the effects that globalization can have on cultural diversity. This debate has introduced various aspects of political, economic and ideological character. Given its vastness, this debate on the positive or negative effects that could be determined by globalization on diversity shall be presented in its principal lines. The justification for this is the fact that such a debate, to my way of thinking, concerns negative effects

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<sup>8</sup> Unesco (2001), *Universal Declaration on Cultural Diversity*, November, Paris. "Cultural sustainability" has been always considered necessary for the balanced progress of humanity and such an objective has been reaffirmed many time by this international organization. For instance, Unesco (2003), *Convention for the Safeguarding of the Intangible Cultural Heritage*, October, Paris.

of the phenomenon of internationalization and not that of globalization. In this article such phenomena have been considered as different from each other.

The contributions that have faced the theme of the effects of globalization on the cultural diversity, besides introducing different interdisciplinary approaches are characterized by numerous judgments of value that sometimes are individual opinions. However, I will try to mention the theses more discussed, referring for a close examination to the cited publications.

According to some authors, as regard the negative effects of globalization on cultural diversity, globalization receives great impulse from "multinationals corporations", which extends to the whole of world their "culture of the consumer", standardized products and values as well as an intense exploitation of natural resources.

Other authors stigmatize the wrong hypothesis which consider the values and ideologies of a "Global North" as an adaptable structure for the future economies of the countries doing parts of a "Global South".

Besides some searches show as the homogenization of processes promoted by the institutions which try to make human activity more efficient, controllable and predictable can determine the existence of "monoculturalism", which can create feelings of loss of identity. Finally increased availability of advertising process through mass media can annul the influence of the local culture<sup>9</sup>.

Indeed all these studies quoting the term globalization make reference to what I have defined as internationalization, which in past has promoted such negative effects on cultural diversity, which, I hope, will be opposed by globalization.

Concerning the positive aspects of globalization cultural diversity, the researchers have put in prominence the possibility that globalization can strengthen the communication among various cultural entities, which can bring to a more elevated pluralism and to a greater ability of mutual understanding.

Other researchers, worried by the notable existing inequalities inside of single nations, especially of those economically poorer, sustain that in a globalized world the knowledge of living condition, the access to education and the new opportunities of occupation can create economic pressures on governments for the elimination of aforesaid inequalities, putting them to operate in equitable way for all the citizens.

Numerous authors put in prominence that globalization can give the possibility to stimulate

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<sup>9</sup> A. L Dunklin (2005), *Globalization: A portrait of exploitation, inequality and limits*, "Globalization current issues", Vol. 5; F. Youngman, (2000), *Adult education and development theory* (Chapter 4) in F. Youngman, "The Political Economy of Adult Education & Development", ZED Books, London; M. Torin (2005), *Globalization, technological change and public education*, Routledge, New York.

"new ideas" such to furnish a base for the various cultures with the purpose to work together for the search of "new ways" for a best cohabitation both to economic level as also to social level. Finally, numerous studies also highlight the role of new computer technologies with the access to internet which are transforming the world creating a greater awareness. The Universities offer programs of study through internet and therefore more and more numerous students can benefiting of an ample culture. Those studios, which highlight the positive aspects of globalization, recognize in conclusion that in the history of mankind there have been various periods when greater communication between cultures has lead to a flowering of creativity. The first examples quoted on the subject are the period of "Periclean Athens" and "Renaissance" in Italy.

The aforesaid phenomenon can be confirmed also in economic terms. Indeed it is to the base of the creation of new and dynamic international markets.<sup>10</sup>

#### **4.1 The existence of a “virtuous circle”**

The argument of this section will be that the diversity will not only receive great positive effects from globalization but it is essential for the same process of globalization. As already mentioned, if the whole international economy is completely homogenized, with the same tastes, preferences and technologies, there will be no space for globalization. The objective to widen the existing markets would not have any meaning in the aforesaid hypothesis. As regard the target to create new markets, this other objective, always in the hypothesis of a completely homogeneous world, might not be fully achieved because of the lack of cultural diversity. In a homogeneous international economic system, also admitting that there aren't any unbalance as regard the level of income of the various nations, the creation of new markets could never have a dynamism and an intensity equal to that determined instead by the coexistence of different cultural systems.

Under the actual conditions of the economic world where an ample cultural diversity still exists, the globalization can reach its objectives among which that most important is the creation of new markets. It takes the start proper from the cultural diversity and this is the first part of a "virtuous circle" that proceeds from cultural diversity to the start of globalization.

The second part of such "virtuous circle" proceeds from globalization and is closed with its positive effects on cultural diversity. Such positive effects require further qualifications. This

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<sup>10</sup> J. Tomlinson, (1999), *Globalization and culture*, Polity Press, Cambridge; J. Tomlinson (2008), *Globalization and cultural identity*, "Centre for Media Research", University of Ulster; J. H. Fu & C. Chiu (2007), *Local culture's responses to globalization: Exemplary persons and their attendant values*. "Journal of Cross-Cultural Psychology", 38(5), 636-653; G. Lachapelle (2005), *Globalization and governance: aspiring to a fairer globalization*, "Development", 48(1), 52-60; H. C. Triandis (2006), *Cultural aspects of globalization*, "Journal of International Management", 12(2), 208-217.

effects have to highlight their dynamic character, thanks to which the cultural diversity will not be a static phenomenon in the sense that the various cultures will be maintained without any change. Rather cultural diversity will be fed and renewed in such way to maintain always live the process of globalization. This particular aspect will be treated subsequently.

The development of this "virtuous circle" would allow not only an higher and constant economic development of developed countries but also the elimination of the strong economic inequalities that still affect most of humanity, ending the negative effects of internationalization and reducing the migration currently recorded in the most advanced economies. As concern the last one aspect, it represents a source of contrasts and clashes inside a single country because of the coexistence of groups of people with different cultural values. But this coexistence has also shown numerous positive aspects that can spring from diversity.

In economically advanced countries, firms take on immigrant manpower and as many economists have shown<sup>11</sup> the productivity of such firms will be increased if a prudent integration between the cultures of immigrant and that of resident workers is carried out.

## **4.2 Integration and diversity**

The presence of diverse individual abilities coming from different ethnic groups can be compared to the availability of different productive factors for entrepreneurs. Such factors have a complementary validity in production and they allow an increased productivity and as well as a greater ability for creating innovation.

Regarding this concept, Lu Hong and Scott Page<sup>12</sup> present two important results. They say that a group of individuals with different intellectual abilities can find optimal solutions for very difficult problems. Besides, they assert that, under certain conditions, a group of people with limited ability but a variety of cultures can get better results than another group of individuals who have greater ability, but possess a homogeneous level of culture. Such a result is based on the intuition that the probability that an individual makes better choices than another depends mainly on the different perspective from which he studies the choices to be made.

Such a reality has been underlined by many economists. Recently, it has also been highlighted using a function of production with more variety of inputs, already introduced by Dixit and Stiglitz, to show that this variety increases total output.

This result is empirically verifiable. The advantages of diversity regarding productive ability are

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<sup>11</sup> A. Alesina and E. La Ferrara (2005), *Ethnic diversity and economic performance*, "Journal of Economic Literature", 43 (3), 766- 767; N. Genovese and M.G. La Spada (2006), *Diversity and pluralism: an economist's view*, "Fondazione Eni Enrico Mattei", Nota di lavoro 62, 1-11.

<sup>12</sup> L. Hong and S. E. Page (1995), *Diversity and optimality*, Working Papers 98, 08-077, Santa Fè Institute.

more remarkable in the most advanced and complex societies.

In fact, in countries with a high level of income, there is certainly a well functioning market economy which is endowed with the necessary institutions. In these countries every individual is in a position to operate on the free market in order to realize his own welfare objectives. On the other hand, a developed country with a high level of income presents a very complex economy, particularly regarding specializations of operators and variety of products to offer to consumers

These conditions are optimal for the integration into such an economy of an increasing number of groups of individuals with different ethnic and cultural characteristics. They will allow a variety of productive abilities and, at the same time, a dynamic and varied demand for goods.

Integration is useful but not essential. It can be substituted by globalization. This is important because integration not only involves positive effects, but to these negative effects are added.<sup>13</sup>

If less developed countries proceed toward a higher and higher level of growth, this makes the reduction of migratory flows possible (this is another aspect that distinguishes globalization from internationalization). Thus these countries can use their specific cultural abilities for the production of traditional products, accompanied, thanks to the great development of information promoted by globalization, by the knowledge acquired from the more developed countries and therefore they can contribute to the widening of markets.

Developing countries can also produce new products tied to their specific cultural abilities, contributing to the necessary creation of new markets and new goods that are essential to maintaining a high level of development of the global economic system and to avoiding the dangers of stagnation and the saturation of markets. Such new products will assure improvements of welfare and a greater possibility of choice to the consumers of the world economy. This process shows the correlation between diversity and globalization.

As has been said, through globalization the advantages of diversity can be exploited both for the amplification of existing markets and to maintain such diversity among the various countries since developing countries can use their own particular productive abilities. But the maintenance of the cultural diversity feeds the globalization creating that "virtuous circle" which can bring to great results.

## **5. The dynamics of diversity and "destructive creation"**

It is said that globalization maintains and subsequently widens cultural diversity. This effect must not be considered from a static point of view, in the sense that all habits and existing cultural

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<sup>13</sup> A. Alesina, E. Spolaore and R. Wacziarg (2000), *Economic integration and political disintegration*, "American Economic Review", 90 (5), 1276-96.

aspects will be maintained. The effects of globalization on diversity need rather to be studied from a dynamic aspect. To have underlined the existence of a "virtuous circle" between globalization and cultural diversity has already highlighted a dynamic aspect. But the dynamics of diversity must be deepened in the presence of such an innovative phenomenon as globalization, which must extend the market economy with its laws and its operating mechanisms all over the world. One of the fundamental characteristics for the development of the market economy is the availability of "social capital"<sup>14</sup>. Its creation needs the elimination of certain behaviour, such as lack of trust and aversion toward cooperation. Moreover, the desire to improve one's own economic conditions, the existence of legislation that guarantees respect of contracts, accompanied by widespread adhesion to such constraints by the generality of economic operators are necessary. Finally, economic exchanges must involve the whole economic system and not be confined to narrow environments, such as the family or small groups of operators.

Such necessity is of particular economic importance for developing countries, in which the lack of the aforesaid "social capital" constitutes an insurmountable obstacle for economic development. In these countries it will be essential, under the push of globalization, to assimilate and to adopt cultural elements and behaviour existing in advanced countries. This will involve a reductive effect on cultural diversity, but that will be compensated by the full utilization of other numerous behavioural peculiarities and specific human and environmental resources, existing in the aforesaid countries. Also thanks to the impulse given by globalization, it will also be possible for other new specific cultural values to be affirmed in these countries, contributing to an increase in diversity and at the same time of their level of economic development.

These aforesaid considerations outline some possible dynamic developments of diversity in a global world. Such dynamics have been defined as a "process of creative destruction"<sup>15</sup>. The inspiration for this definition originates from the *Theory of economic development* by J. Schumpeter. It sets out to create a parallelism among the dynamics of diversity and the fundamental mechanism of economic development, which works, thanks to the "innovative entrepreneur", through the creation of new firms that better answer consumer preferences and that necessarily determine the destruction of less efficient pre-existing firms.

I wish to add that the aforesaid parallelism is not superficial, since innovation, and therefore the creation of new firms are mostly possible in the case in which cultural diversity exists.

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<sup>14</sup> This fundamental element of economic development was outlined by R.D. Putnam (1993), *Making democracy, civic tradition in modern Italy*, Princeton University Press, Princeton. After this important contribution, a numerous literature has been published and the same World Bank has adopted this concept in its analysis regarding developing countries.

<sup>15</sup> T. Cowen, (2002), *Creative destruction*, Princeton University Press, Princeton.

The "process of creative destruction", regarding the dynamics of diversity, will be started by globalization in advanced countries too. In these countries, the greater diffusion of knowledge, thanks especially to computer technology, can lead to the elimination of some cultural aspects, such as consumerism, the excessive tendency to accumulation of wealth, lack of respect for the environment, which are harmful for widespread expansion of the level of welfare among the various nations. Such elimination will be determined by the acceptance of certain cultural elements of other countries, and the birth of new cultural characteristics, which will contribute in a conclusive way, thanks also to the "virtuous circle" already highlighted in section 4.1 to strengthening globalization and therefore cultural diversity. Cultural diversity, thanks to its dynamic characteristics, which consist of the "virtuous circle" with economic globalization and in the aforesaid process of "creative destruction", will grow more and more within single countries and not only among different nations. This will reduce migratory flows, together with the expansion of economic welfare from rich nations toward poor ones. This constitutes the true objective of globalizatio

## **Conclusion**

At the end of this article some observations can be made concerning some essential points of the theme dealt with. As regards the wide variety of opinions regarding the judgment on the economic effects of globalization it has appeared useful to distinguish the various positions of economists according to their greater or lesser trust in the market economy. Besides I have warned the necessity to consider globalization as a new phenomenon distinguished from internationalization. Such a distinction has been useful in order to highlight the existing relationships between globalization and diversity. Cultural diversity has been seen from an economic aspect, since it has been considered as essential both for reaching greater technological efficiency and a more dynamic innovative process and for achieving a strongly diversified and dynamic demand for goods. Such positive aspects can be achieved only through globalization. The latter has been introduced as a phenomenon that is born from cultural diversity and at the same time, through a dynamic process called "virtuous circle", it is source of a variety of new cultural endowments. Such variety and wealth of cultural diversity is determined through the operation of globalization, through a dynamic process of "creative destruction" and can be the base for development that would eliminate the existing economic inequalities among nations and within nations and would have the characteristics of stability and dynamism.

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