Lorenzo Bini Smaghi: Globalisation and public perceptions

Dinner speech by Mr Lorenzo Bini Smaghi, Member of the Executive Board of the European Central Bank, at the joint meeting of the GEPA-GPA-GSPA, Brussels, 3 December 2007.

* * *

1. Introduction[1]

Ladies and gentlemen,

It's pleasure for me to be with you tonight to talk about a fascinating subject: globalisation.

In accepting this invitation a few weeks ago, and having just read Ed Leamer's wonderful survey of The World is Flat in the Journal of Economic Literature[2], I tried myself to fully exploit the benefits that globalisation offers us, according to economists. I thus sent an e-mail to Bangalore, India, asking someone to draft a dinner speech on globalisation. The following morning a well-written piece appeared in my inbox, with an invoice of little more than €100 (Bangalore has also started invoicing in euros!). I was happy. After all, the time it would take me to write a 30 minutes speech on globalisation would certainly exceed €100! But then I asked myself if you would be happy. Would you invite me next time? Maybe next time you would call Bangalore directly, and perhaps also Bollywood to hire an actor to deliver the speech. My anxiety increased, and I started working hard on my speech, together with my collaborators in the ECB, to try maintaining my competitive advantage. In the meantime I understood why people are so concerned about globalisation!

I would like to address the issue of globalisation from the perspective of the public opinion, which seems to be quite different from that of economists like you and me. For economists, who focus on economic performance, it is difficult not to be enthusiastic about globalisation. Let's consider a few facts: the world economy has rarely grown as strongly as in the past decade, despite several shocks. In the emerging economies, hundreds of millions of people have been lifted from poverty and, most noticeably in China, a middle class is appearing. Since the fall of the Berlin Wall in 1989, the number of people engaged in market activities and no longer trapped in a subsistence economy has practically doubled, from 1.5 to 3 billion.

Globalisation is, however, not only an economic phenomenon. It has many facets, each of which is complex in itself: there is the socioeconomic dimension, the environmental aspect, questions of national identity, and, of course, the highly sensitive issue of migration. It is also, to an important extent, a cultural phenomenon. Nevertheless, the economic aspect of globalisation remains the most pressing aspect in the public opinion. In my speech today I will try to look more deeply into that perspective.

I should also say from the outset that these reflections will certainly not lead me to call for a stop to globalisation. None of us wants to see a repetition of the 1930s. The challenge however remains to minimising the costs so as to increase acceptance by our societies. I will not try to offer definite prescriptions; many people in this audience are much better qualified than me to do just that. Instead, I will try to raise some issues that I see as problematic or still unresolved, and hope to stimulate the debate at tomorrow's conference.

I'd like to touch upon three issues; first, public perceptions of globalisation; second, the evidence on costs and benefits of globalisation, with particular reference to the euro area;

[1] The views expressed reflect only those of the author. I thank R. Anderton and L. Stracca for input and comments as well as A. Mehl and R. Straub for providing background analysis.

[2] See Leamer (2007).

third, the opportunities and challenges raised by financial globalisation. In my conclusions, I will also elaborate on the role of Europe in this process.

2. Perceptions of globalisation

How does the public perceive globalisation? I would like to underline 4 "stylised facts" that can be drawn from existing analyses.[3]

First, Europeans are more inclined to view globalisation with concern. Taking the EU as a whole, public opinion is evenly split between supporters and opponents of globalisation. The situation varies considerably across countries. Anxiety about globalisation is very noticeable in France (but is also high in Greece), in particular in relation to its impact on jobs. By contrast, support is high in Scandinavian countries, such as Denmark and Sweden. Support for globalisation overall seems stronger in the rest of the world. For example, in the United States a majority of the population considers globalisation as inherently good.

Second, cultural competence, i.e. the ability to interact effectively with people of different cultures and education, are inversely related to the degree of concern about globalisation. Indeed, support is strongest among high-skilled workers in mature economies, while political orientation of both skilled and unskilled workers does not appear to matter decisively. The relative lack of support for globalisation among lower-skilled workers and the least educated could indicate that they are uncertain about the general costs and benefits of globalisation, but see the individual costs and benefits more clearly, perhaps more rationally. Concerns about the economic costs of globalisation for certain groups in society have led to the creation of the European Globalisation Adjustment Fund, an EU initiative which aims to help workers made redundant as a result of changing global trade patterns to find another job as quickly as possible. I should also note that, generally speaking, surveys indicate that people in the EU are not protectionist, though they are somewhat more so in France. However, Europeans are more inclined to support redistribution, and this is in keeping with recent results in the literature indicating that Europeans are more concerned about inequality more than the Americans.[4]

Third, there is no prima facie evidence that measures of reported happiness or "Life satisfaction" are negatively affected by globalisation. Regression analysis suggests a positive relationship between "Life satisfaction" in OECD countries in the mid-2000s against the ranking of each OECD country in a Globalization Index (See Figure 1).[5] More globalisation seems to make people happier, at least according to this simple bivariate evidence, although the correlation could also mean that happier countries tend to become more globalised.[6]

Fourth, and this an important issue to which I will turn later in my speech, EU citizens believe that globalisation is influenced far more by the EU than by national governments. Indeed, it is unlikely that any European country can have sufficient weight to influence the course of globalisation and the "rules of the game" of the global economy. Only the EU as a whole can

---

3 I draw here from a range of opinion polls, including Eurobarometer (2007), CCFR (2006) and WorldPublicOpinion & CCFR (2007). Note that the methodology across opinion is not necessarily directly comparable.

4 See Alesina, Di Tella and MacCulloch (2004). They show that concern for inequality is high among the poor and the leftist in Europe, while it is restricted to rich leftists in the United States.

5 This is the A.T. Kearney/FOREIGN POLICY Globalization Index, which tracks and assesses changes in four key components of global integration, incorporating measures such as trade and investment flows, movement of people across borders, volumes of international telephone traffic, Internet usage, and participation in international organizations. The data used refer to 2006.

6 There is also evidence in the literature that trade openness positively contributes to Life Satisfaction; see Bjornskov, Dreher and Fischer (2007).

have enough "punch" to turn things in the direction that European citizens want. This creates a "demand" for more "Europe" in the globalisation process, to which Europe does not seem to be responding in the right way. I will come back to this later.

In my opinion, policy-makers (including central banks) have to take these perceptions seriously. In economics, perceptions shape reality. It's therefore important to understand how globalisation, and the concerns that it generates in households and companies, affects the latter's behaviour.

Let me give you an example provided by Robert Shiller.[7] Suppose that a young person is uncertain whether to pursue a career in which she has real talent but which is fraught with risks, say, as a molecular biologist, or something less risky but with lower value added. A highly uncertain economic environment, with rapid technological progress and the looming prospect of offshoring naturally increases risks for individuals. If such a risk is perceived as falling entirely on the shoulders of individuals, a bad equilibrium may be reached, one where high value-added jobs that require long-term investment, such as molecular biologist, are shunned, while jobs less threatened by off-shoring (say, hairdresser or restaurant owner) are in greater demand.[8] The hypothesis is that economic uncertainty and a high degree of competition may have an adverse effect on jobs and tasks that require long-term investment. This may lead to under-investment in society.

I raised this issue with Ned Phelps a few days ago, as we met at a conference. He looked at me a bit puzzled and said: "It sounds like a very European way of thinking!". I guess I should turn the issue back to you.

Mobility is another issue that raises concerns in our societies. In the global economy, being mobile definitely provides a competitive edge. In the European Union, only a tiny fraction of its workers work in another EU country and there are many obstacles to such mobility, not last the portability of the pension regime. Another issue that is present in the public mind is the share of wages and profits in total income, which has been shifting in favour of profits in the past decade on a global basis, though it is not beyond dispute that the two phenomena are related.[9] This creates the risk that globalisation is seen by the public as something which only benefits the corporate world (and their top managers), while in fact consumers and workers should be the main beneficiaries.

Again, these are issues that policy-makers, including central bankers, have to recognise and take seriously. We need to acknowledge, in particular, that globalisation produces both winners and losers, at least temporarily. Moreover, as I will argue, even winning in absolute terms but losing in relative terms might be problematic, and can create a powerful backlash against globalisation. An efficient system to protect individuals from the negative fallout of globalisation and encourage them to be entrepreneurial and risk-taking is therefore essential.

Let me now turn to the economics of globalisation and, in particular, to the existing empirical evidence.

3. Globalisation, technological innovation and income distribution: the evidence

3.1 The effects of globalisation on the euro area: a "redux"

I would like to briefly review the effects of globalisation on the euro area economy. But before I do so, we should remind ourselves that there are various other forces at play, in addition to

[7] See Shiller (2003).

[8] See Mukoyama and Sahin 2004) for similar considerations in an agency context.

[9] On the global nature of the rise in the profit share see Ellis and Smith (2007).

globalisation, such as Economic and Monetary Union and the launch of the euro, along with EU policies such as the Single Market and also new information and communication technology which has not only reduced the costs of transporting goods and information across the globe but also created new international production and supply chain options. Of course, globalisation and these other economic forces are intertwined and their individual effects are difficult to distinguish.

In respect of the euro area, globalisation has clearly stimulated the growth of its external trade as well as the flows and stocks of its foreign assets and liabilities. The trade openness has increased markedly over time, especially since the early 1990s, and is growing more rapidly than that of either the US or Japan. Meanwhile, the ongoing strength of capital flows is reflected in the considerable rise in outward and inward FDI, which has virtually doubled as a percentage of GDP since 1999.

In particular, globalisation has been driving the strong growth of extra-euro area imports, with outsourcing to low-cost countries and the internationalisation of production playing an important role. Over the past six years, the share accounted for by low-cost countries in extra-euro area manufacturing imports has increased from just over one-third to almost a half. Among those countries, China and the EU's new Member States were the main contributors to the increase, with their shares roughly doubling since the mid-1990s. One benefit of the relatively cheaper imports from these low-cost countries is that they are estimated to have dampened euro area manufacturing import prices by about 2 percentage points between 1996 and 2004. In addition to such direct effects, other more indirect effects are also putting downward pressures on prices. For example, increased imports from low-cost countries may have moderated import prices and mark-ups on goods imported from high-cost trade partners, as well as put downward competitive pressures on euro area domestic profit margins, prices and wages. Indeed, despite the significant upward pressure of globalisation on oil and other commodity prices, there is evidence that the joint effect of all the various globalisation-related impacts on prices has been mildly disinflationary so far.

3.2 Globalisation, inequality and the "race to the bottom"

At the same time, some of these globalisation mechanisms – particularly those relating to the labour market – are causing concerns. For instance, as competition from low-wage countries increases, the bargaining power of domestic workers and unions may have weakened somewhat, as a result of fears of a potential relocation of production abroad. This may have fostered wage moderation in industrial economies and partly explain the rise in inequality in many developed countries.

Between 1990 and the early 2000s, some measures of income inequality, such as the Gini coefficient, increased, though the picture varies substantially from country to country and does not appear to be a generalised phenomenon (with an increase in the UK, China and the US, no change in India, and falling inequality in France and Brazil).[10] However, the finding of a generalised increased in income inequality in the last decade is not uncontroversial in the literature.

The impact of globalisation over the past 20 years has differed across countries, also depending on the structure of labour markets. It seems that labour market adjustment to globalisation – characterised by increased competition from low-wage countries – is occurring mainly via changes in the relative wages of the lower-skilled in the flexible labour markets of the US and the UK, while the more rigid labour markets of continental Europe have primarily resulted in declines in the relative employment of the less-skilled in the euro area countries. In any event, the simple bivariate cross-country evidence, at least among

[10] For a recent survey of these trends, see IMF (2007).

OECD countries (see Figure 2), suggests that more globalised countries have less, not more, income inequality. Again, I should stress that this is just prima facie evidence. I am not sure that these correlations survive in a multivariate setting and when subjected to rigorous econometric tests.

As I said earlier, it is very difficult to disentangle the effects of globalisation and outsourcing on wages from that of other factors, such as the impact of skill-biased technological change on labour demand. Indeed, most of the empirical work on this issue suggests that the main reason for the decline in demand for less-skilled labour is due to technology rather than the trade-related impacts of globalisation. Nonetheless, globalisation and technological progress go hand in hand and, for the public, the former is much easier to criticise than the latter, for obvious reasons.

Concerns about a link between globalisation and income inequality can simultaneously explain two stylised facts in the public's perception of globalisation. First, it can explain why globalisation is viewed sceptically in developed countries, especially by the less well-off, despite the fact that even they are better off in absolute terms. In fact, there is substantial empirical evidence indicating that in developed countries people pay more attention to relative income, possibly more so than absolute income.[11] Those who lose out from globalisation in relative terms may resent it, even if they gain in absolute terms. Second, it explains why support for globalisation is higher in developing countries, where arguably concern for absolute (rather than relative) income should be larger (since income is just above, and in some cases still below, the subsistence level).

Competitiveness concerns are also growing on the exports side as the emergence of global trade players, such as China, has resulted in a shrinking of the market shares of advanced economies, such as the euro area. Nevertheless, extra-euro area export volumes have been growing above their historical trend in recent years due to the persistently robust growth in foreign demand which, in turn, seems to be driven by globalisation forces. However, competitiveness is a key issue and important questions remain on how exposed the euro area and its members are to competition from emerging economies. Competitiveness may, in turn, depend in part on how closely the specialisation of the euro area resembles that of new global competitors such as China. On the whole, euro area exporters tend to specialise in medium-tech sectors but seem somewhat over-weighted in labour-intensive product segments where China has a natural comparative advantage. Meanwhile, the US and Japan seem to have responded to globalisation by increasing high-tech exports, which may be the path the euro area will have to take in the future.

The increasing importance of competitiveness in this environment also raises concerns that globalisation is triggering a "race to the bottom" between countries and putting pressure on governments to reduce job protection, welfare benefits and social insurance. At the same time, globalisation and the liberalisation of trade and factor mobility may also erode the income and capital tax bases by making both capital and high-skilled workers more internationally mobile. This supposed diminishing of the powers of nations to finance and carry out "welfare state" functions comes just at the time when globalisation may be exposing economic agents – particularly the low-skilled – to more risk and job insecurity and when income redistribution may become more necessary. Hence, some argue that globalisation-induced reductions in social expenditure are also fostering the growth of inequality in disposable incomes in developed nations.

Much of the empirical work on this issue finds no strong evidence of globalisation-induced changes in either the level or composition of public-spending.[12] There is evidence, if

[11] See, e.g. Clark et al. (2007).

[12] See, e.g., Dreher, Sturm and Urspring (2006).

anything, of a slightly positive relationship between social expenditure as a share of GDP and the degree of Globalization in OECD countries (See Figure 3). The Scandinavian countries, for example, are in the top league of all measures of globalisation but are also characterised by very high social spending (though this "model" has recently been under some pressure).

A recent study on these issues has argued that EMU may be associated with higher inequality in disposable incomes in the euro area, possibly due in part to greater competition from economic integration, but it seems largely explained by the lower social spending in the euro area countries under EMU.[13] Interestingly, the same research claims that EMU has resulted in improved economic performance which may partly reflect smaller inefficiency losses from redistribution effects on effort incentives.

These issues go to the heart of EMU. On the one hand, greater competition and the implementation of structural reforms in product and labour markets under EMU means that changes in supply and demand for various skill groups will be reflected in a widening of wage differentials between various types of labour in the euro area countries. This greater responsiveness of wages to market forces will benefit the euro area by making it more competitive in the long run. On the other hand, globalisation and greater competition will cause some dislocation and require relatively more adjustment for some sectors and workers than for others. Indeed, survey evidence suggests that the perceived labour market risk is higher for workers in more internationalised sectors (Scheve and Slaughter 2004) and that opposition to economic integration is stronger from individuals who are theoretically more likely to be damaged by it – such as low-skilled workers in countries that receive low-skilled migration inflows.

Bearing in mind these points and issues, the way forward must be to continue implementing structural reforms in product and labour markets so that the euro area countries can fully reap the benefits of both globalisation and EMU. A more flexible euro area economy would also facilitate innovation and help exporters improve competitiveness and move more rapidly into the most appropriate sectors and products. Policies which facilitate education, training and both job search and job mobility will also strengthening the euro area economy.

4. Financial globalisation

Let me also touch briefly on financial globalisation. One of the most impressive aspects of globalisation is the spectacular rise in cross-border financial flows. Between the mid-1980s and 2004, the sum of mature economies' foreign assets and liabilities as a share of GDP grew threefold. In theory, this should have resulted in an improvement in the global allocation of capital, enhancing risk sharing across countries and consumption stabilisation vis-à-vis income shocks. As you know, not all of this financial globalisation is working in the textbook way. While FDI flows are generally in the right direction, that is "downhill" (from developed, capital-rich countries to emerging, capital-poor countries), that is not the case for portfolio flows, that tend to move "uphill". This has created a rather paradoxical situation, in which the world's richest economy maintains a large current account deficit largely financed by poor countries.

Research has revealed that not all countries benefit in the same way from financial globalisation; in order to fully reap its benefits, a country must have strong institutions, in particular a sound legal and supervisory system.[14] This is all the more so as financial globalisation is inevitably associated with financial innovation, to the point that the two phenomena overlap and become hard to distinguish. The rising importance of certain non-

[13] Bertola (2007).

[14] See Kose, Prasad, Rogoff, and Wie (2006).

bank intermediaries, such as hedge funds and private equity, and new financial instruments, such as structured products, has taken place on a global scale. Moreover, financial globalisation makes individual financial markets and systems more vulnerable to cross-border contagion, and we have a sobering reminder of this in the current market turmoil.

The combination of globalisation and innovation in finance has contributed to a growing asymmetry of information in capital markets, at least in some segments of the market.[15] This is particularly the case for structured products, which often originate in one country, are repackaged in another, and sold in a third. It is fair to say that not only retail investors, but also bank and financial managers do not have the financial education, the resources and the time to understand all the risks inherent in these types of product.

Asymmetric information entails two different types of risk. The first type is that the informed party takes advantage of its information lead at the expense of the less informed. This has obvious implications in terms of income and wealth (re-)distribution from the less informed party (say, a retail investor) to the more informed one (say, financial industry managers), a risk that is certainly heightened by the complexity of the financial products in question. The second type is that, once this redistribution occurs, a strong backlash is created, with the public turning against all actors and products in that market. On the other hand, the financial industry has a special status peculiar precisely because of the asymmetric nature of the information it processes and the systemic implications of its developments. This is why, differently from others, the financial industry is supervised by public authorities.

Financial turmoils, such as the one we are currently experiencing, expose financial globalisation and the policies implemented to govern it to criticism. In particular, some observers criticize the fact that policies are implemented to support the financial system, while similar policies are denied to other sectors when facing similarly critical moments. The reason for such a support is precisely that the financial sector is special and requires regulation and supervision. This reasoning, however, is based on two principles. First, the supervisory authorities are able to distinguish between sound and unsound institutions. Second, the unsound institutions, and in particular the managers responsible for unsound decisions, will not be helped and will be replaced.

One can question whether these two basic principles are being fully respected in the current turnmoil. First, it has proven very difficult for supervisory authorities to assess the soundness of institutions. Authorities have basically relied on the self-assessment of financial institutions and their publicly disclosed accounts, without the possibility of questioning them. In fact, financial institutions themselves seem to have had, at some point, little knowledge about their own situation, and the assumptions underlying their own disclosures have not always been fully transparent. Market participants are evidently still full of doubts about the soundness of their counterparties, as reflected in the still very large credit spreads in the money market. It appears that supervisory authorities do not have much more information than the other market participants on the creditworthiness of major institutions.

Second, those responsible for wrong investment decisions do not seem so far to having been penalised substantially, in a way that will discourage similar behaviour in the future. Several top managers have stepped down from their positions with huge payment compensation. Broader responsibilities for internal risk management and control, in particular within financial institutions' boards, do not seem to having been fully scrutinised. It might be too early to judge, but one of the causes of the recent turnmoil has certainly been poor internal governance. Unless this issue is properly addressed the risk of creating moral hazard cannot be underestimated. Furthermore, it would be difficult to accept that those who will suffer the most from this phase of turbulence will be those that trusted the financial institutions' advice

[15] Of course, financial globalisation and innovation have also contributed to create new safe assets, notably for savers in emerging economies, thereby alleviating asymmetric information.

on their savings or borrowing, while those that provided the advice and made the investment will be able to walk away with only their bonuses affected. This would validate the concerns, that already exist, about the effects of financial globalisation on the concentration of financial wealth worldwide. The distribution of financial wealth is one order of magnitude more unequal compared with income.[16]

A final lesson from the current turmoil is that the complexities of finance in a globalised world call for more financial education, especially for the poorer members of society. The degree of financial literacy of the population, according to the evidence, raises concern as to people's ability to reap the benefits of globalisation. These are matters which central banks and other policy-making authorities should have a keen interest in pursuing.

To sum up, the recent financial turmoil will not make financial globalisation more popular. Unless policy authorities, starting from those in charge of financial supervision, draw the appropriate lessons and have the courage to recognise what went wrong and how their task can be improved, they risk loosing the confidence of citizens, and ultimately their independence. In Europe, a reflection on the degree to which the current Lamfalussy framework can be pushed to accommodate a much increased cooperation between national supervisory authorities is certainly required.

5. What can Europe do?

To summarise, policy-makers should acknowledge more fully the negative perceptions of the European public opinion towards globalisation. In addition to uttering the globalisation-is-good-for-you mantra, policy-makers should make it clear that they are aware of the painful adjustment costs for those workers and firms confronted with increasing global competition. The same policy-makers need to ensure that the necessary policy steps are taken to help those individuals and groups adjust to the new circumstances.

What is the role for Europe in all this? As I said, European citizens are aware that the challenges of globalisation can hardly be tackled at the local level. There thus seems to be an important role to be played by European institutions in the governance of globalisation. So why is this not happening?

There may be two related reasons.

The first is that for Europe to be more effective at the global level, it has to act in a united way. Such unity requires that actions conducted at the national level are more coordinated or even replaced by a European actor. The creation, or strengthening, of a European actor is objected, in many areas, by the national policy makers. "Turkeys don't vote for Christmas" is a dictum that would apply well to the case. Over the last few years national political or technocratic players have developed a resistance to the continuous strengthening of the European policy role and increasingly defended their national prerogatives, opposing further devolution of power to the European level. The argument – which is related to the second reason why Europe is not more present on the world scene – is that such a devolution is not supported by the people of Europe, often forgetting that no occasion is lost by national policy makers to blame Europe, or the euro, for any problem, including those that arise from domestic policy failures. The blame-Europe game has become a favourite sport in some capitals.

The second reason is that Europe, and its institutions, are seen as too distant by the people of Europe. Europe is not seen as addressing and solving the problems that globalisation is posing to its citizens. This is largely due to the fact that the main tools to address globalisation and its effects are not in the hands of Europe but rather in the national

[16] See Davies et al. (2006).

policymakers' hands. Structural policies, affecting education, welfare, research and development, labour markets, are largely within national policies. The Lisbon agenda only sets benchmarks and best practices, but it's up to the countries to implement the policies.

There seems to be a vicious circle. European citizens fear globalisation and want that the latter is governed so that the poorest and more fragile are helped in the process of adaptation to a global economy. EU countries individually can do little by themselves to govern globalisation, as they can hardly interact with the other big players, such as the US, China, India and the Emerging world. A stronger, more united, Europe would be required. The Member States are not allowing this to happen. On the one side they do not want to deprive themselves with their remaining – largely illusory – powers. On the other side, they tend to blame Europe for not being able to solve the problems raised by globalisation. Europe thus seems powerless in the view of its citizens, who blame it for being so weak.

What's the way out? A stronger Europe and at the same time a Europe closer to its citizens: this is what seems to be missing. It's ultimately an issue of leadership. Only leaders can have the vision of providing Europe with the necessary powers and at the same time being closer to the needs of the citizens. Unfortunately, the Leaders of Europe are chosen not by the people of Europe, but by the national representatives. It might burn down, in the end, to the national representation fearing of being overshadowed by the European leadership and lacking the courage of contributing to shape it. Until such a fear will prevail, European citizens are likely to continue fearing globalisation, much more than others around the world.

Thank you for your attention.

References

Alesina, A., R. DiTella and R. MacCulloch (2004): "Inequality and happiness: are Europeans and Americans different?", Journal of Public Economics, 88, pp. 2009-2042.

Anderton, R., Brenton, P. and Whalley. J. (2006) Globalisation and the Labour Market: Trade, Technology and Less-Skilled Workers in Europe and the United States (2006: Routledge, London) edited by Robert Anderton, Paul Brenton and John Whalley.

Bertola, G. (2007), "Economic integration, growth, distribution: does the euro make a difference", paper presented at the 2007 DG-ECFIN Annual Research Conference on "Growth and income distribution in an integrated Europe: does EMU make a difference?", Brussels, 11-12 October 2007.

Bjornskov, C., Dreher, A. and J. A. V. Fischer (2007): „The bigger the better? Evidence of the effect of government size on life satisfaction around the world", Public Choice, 130, pp. 267-292.

Clark, A., Frijters, P. and M. A. Shields (2007): "Relative income, happiness and utility: an explanation of the Easterlin paradox and other puzzles", IZA Discussion Paper No. 2840.

Chicago Council on Foreign Affairs (2006), "Public opinion survey reports", http://www.ccfr.org/.

Davies, J. B., Sandstrom, S., Shorrocks, A. and E. N. Wolff (2006): "The World Distribution of Household Wealth", working paper.

di Mauro, F. and Anderton, R. (2007), "The External Dimension of the Euro Area: Assessing the Linkages", Cambridge University Press, London.

Dreher, A., Sturm, J. and Urspring, H. (2006), "The impact of globalisation on the composition of government expenditures: evidence from panel data". Swiss Institute for Business Cycle Research, Working Paper no. 141.

Ellis, L. and K. Smith (2007): "The global upward trend in the profit share", BIS Working Paper No. 231.

Eurobarometer 66 (2007), http://ec.europa.eu/public_opinion/standard_en.htm.

IMF (2007), “Globalisation and inequality”, World Economic Outlook, September 2007, Washington DC.

Kose, A., E. Prasad, K. Rogoff, and S.-J. Wie (2006b),”Financial Globalization: A Reappraisal”, NBER Working Paper 12484.

Leamer, E. E. (2007): “A flat world, a level playing field, a small world after all, or none of the above? A review of Thomas Friedman’s The World is Flat”, Journal of Economic Literature, 45, 1, pp. 83-126.

Mukoyama, T. and A. Sahin (2004): “Repeated moral hazard with persistence”, Economic Theory

Scheve, Kenneth and Matthew Slaughter (2006), “Public opinion, international economic integration, and the welfare state.” In Samuel Bowles, Pranab Bardhan, and Michael Wallerstein (eds.), Globalization and Egalitarian Redistribution, Princeton, NJ: Princeton University Press.

Schulze, G. and Urspring, H. (1999), “Globalisation of the economy and the nation state”, The World Economy 22, 295-352.

Shiller, R. (2003): The New Financial Order: Risk in the 21st Century, Princeton University Press.

WorldPublicOpinion and The Chicago Council on Global Affairs (2007), “World public favours globalization and trade but wants to protect environment and jobs”, http://www.worldpublicopinion.org/pipa/articles/btglobalizationtradera/.

Figure 1. Globalisation ranking and life satisfaction across OECD countries

Data refer to the mid 2000s. Data on Life Satisfaction from the World Values Survey, fourth wave. The globalization ranking is the ranking of countries in the A.T. Kearney/FOREIGN POLICY Globalization Index.

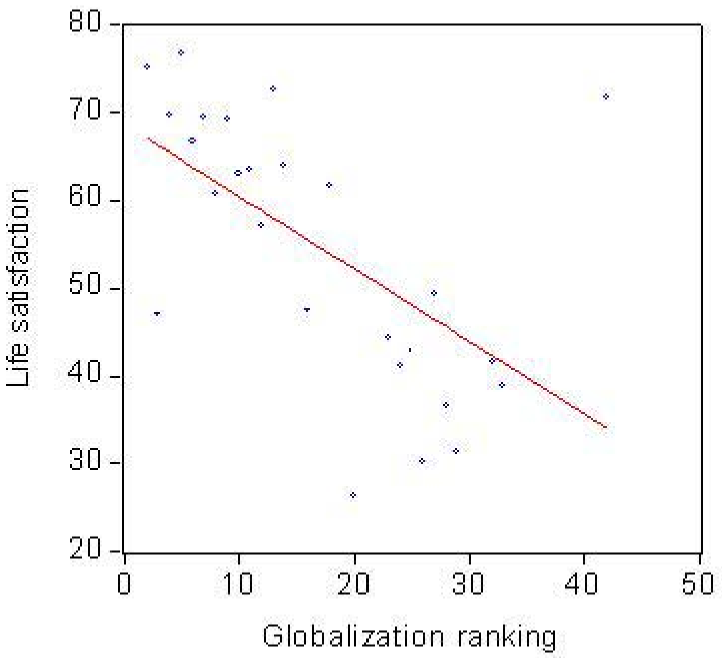

Figure 2. Globalisation ranking and Gini coefficient of income inequality across OECD countries

Data refer to the mid-2000s. The globalization ranking is the ranking of countries in the A.T. Kearney/FOREIGN POLICY Globalization Index. The Gini coefficient data are OECD.

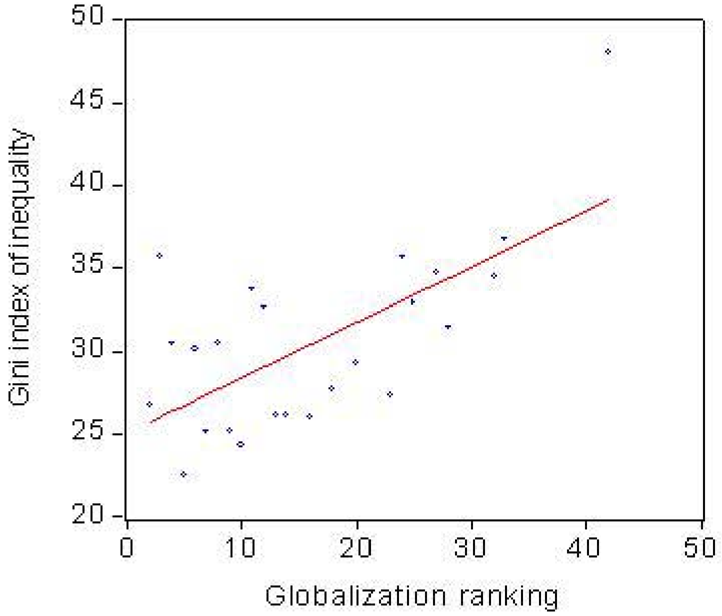

Figure 3. Globalization ranking and social expenditure as a share of GDP across OECD countries

Data refer to the mid-2000s. The globalization ranking is the ranking of countries in the A.T. Kearney/FOREIGN POLICY Globalization Index. Data on social expenditure are OECD.