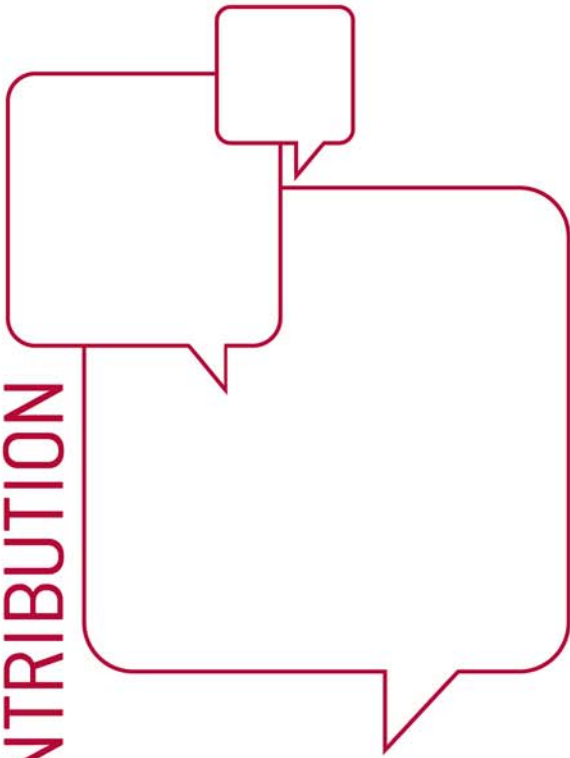


BRUEGEL POLICY CONTRIBUTION



5 April 2008

PROGRESSIVE GOVERNANCE AND GLOBALISATION: THE AGENDA REVISITED

Paper for the Progressive Governance Summit 2008

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Progressive Governance and Globalisation: The Agenda Revisited

A paper by Jean Pisani-Ferry

Executive summary

The Progressive Governance agenda on globalisation and the responses to it was formulated in the late 1990's. It highlighted opportunities offered by globalisation, and therefore the need to embrace it. But at the same time it perceived that accelerated transformations in the world economy were bound to give rise to adjustments of unprecedented magnitude. In a kind of two-handed strategy, it advocated a combination of bold domestic reforms and a strengthening of global governance to make the most of economic globalisation.

Developments over the last decade have brought confirmations and surprises. Key facts presented in this paper are:

- Unprecedented integration through trade and foreign direct investment
- A worldwide propagation of macroeconomic stability
- Uneven and lopsided financial globalisation
- Stable global inequality and a rise of within-countries inequality
- An increasing tendency of opinion in rich countries to blame globalisation for economic insecurity

Against this background, the underlying philosophy of Progressive Governance is in no need for revision. Most of its key choices continue to be valid. However the speed and magnitude of the transformation affecting the world economy are larger than initially envisaged, while domestic policy reforms and redistribution have often been insufficient to cope with this adjustment challenge. Some of the features of globalisation are also disturbing, especially as regards the pattern of capital flows, and international institutions have been facing both a crisis of legitimacy and a crisis of effectiveness. In other words, the two-handed globalisation strategy has not been invalidated by events, but has not been fully implemented.

Furthermore, the years ahead risk being less auspicious. The return of scarcity and mounting concerns over economic security; the re-emergence of state capitalism and the rise of Sovereign Wealth Funds; and financial instability represent new challenges to address. The continuing development of an open, multilateral world economy is less able to be taken for granted today than it could a decade ago.

Against this background, the definition of a renewed agenda that builds on the success of the initial one should be a priority for progressive governments.

Progressive Governance and Globalisation: The Agenda Revisited

A contribution to the Progressive Governance Summit Conference, London, 5 April 2008

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Progressive Governance emerged in the 1990's from a critical assessment of the policy failures of economic strategies pursued in the 1970's and the 1980's by governments of the centre-left and the left. Drawing lessons from these failures as well as building on a largely common reading of the changes under way in the world economy, a series of quasi-simultaneous policy experiments in advanced and developing economies introduced major innovations to the agenda and the policy toolkit. A key dimension of this reassessment concerned attitudes towards globalisation and economic openness.

A decade has passed since this agenda was first formulated. It has been rich in surprises and lessons for policymakers, and the objective of this note is to discuss what has been learned that could help in reassessing the Progressive Governance approach to globalisation. To this end, section 1 outlines the initial agenda. Section 2 introduces selected stylised facts that summarise some important lessons of the last decade². Building on this reading, section 3 discusses the policy implications for the reformulation of the agenda. Section 4 puts the discussion in today's context, briefly taking on board recent developments.

1) A recap of the Progressive Governance agenda

Progressive governments in the 1970's and the 1980's had often behaved as if they had to choose between opening up to trade and foreign investment and attaining their domestic objectives. Then, displacing the often half-hearted attitude of the past, came an unequivocal commitment to *economic openness*. Globalisation was recognised as a major development and emphasis was put on the opportunities created by it and the need to embrace it rather than to attempt to resist it. At the same time, it was claimed that this commitment did not imply in any way renouncing essential values or assigning a lower priority to domestic policy objectives.

Thus a defining common thread was to combine a radical revision of some of the key tenets of the economic policy framework and a rethink of the choice of instruments best suited to attaining traditional objectives.

A clean break with the past was made on two fronts:

- First, the essential role of *competition in product and financial markets* in allocating capital and fostering innovation and productivity was acknowledged to a much larger extent than had been the case beforehand. Previously held beliefs that restricting competition, controlling capital ownership and directing the allocation of credit could somehow contribute to economic performance and/or equity were shunned, policies favouring entry and competition were favoured instead.
- Second, *macroeconomic stability* was recognised as a precondition for economic performance and social justice. Whereas tolerance of inflation and lack of fiscal discipline often characterised the policies of the previous decades, it was acknowledged that such behaviour had severely adverse consequences, at

¹ I am grateful to Jérémie Cohen-Setton for his assistance in the preparation of this paper.

² This note leaves aside three issues of major importance that are discussed in other papers for the conference: it ignores climate change and poverty, and it only touches on the reform of international institutions.

least in the medium term and increasingly also in the short term in financially open economies. From Europe to the US and the developing world, this led to a drastic revision of the policy framework, often underpinned by institutional reforms.

Turning to instruments, many of the traditional ones were retained, though their *modus operandi* was reformed. Especially:

- The role of tax-based *redistribution* in achieving social justice was acknowledged, but emphasis was put on the need to complement it with empowerment through improving the individuals' access to job opportunities as well as to knowledge, technology and finance.
- The role of active public policies and effective institutions for promoting *employment* was maintained, but it was increasingly accepted that effectiveness called for the promotion of skill acquisition and access to job opportunities, rather than for the protection of existing jobs.
- *Social insurance and means-tested assistance* were retained as essential but it was recognised that they could have significant disincentive effects. Priority was therefore put on designing incentive-compatible insurance and assistance schemes that encouraged rather than discouraged participation in the labour market and investment in human capital.
- The role of *public services* in ensuring access to education and healthcare was confirmed, but effectiveness and efficiency were given new importance and increasingly, contestability and choice were introduced as instruments to promote quality.

Finally, rising interdependence and the realisation that well-being across the world increasingly depended on adequate provision of global public goods led to the definition of a *new global agenda* of international cooperation and multilateral governance. Development, health and education, climate and financial stability emerged as key priorities whose achievement necessitated stepping up international cooperation and strengthening global institutions to make them effective common instruments.

This short summary seeks to pinpoint what was distinctive in the Progressive Governance response to the challenges of globalisation. The assessment underlying it highlighted the opportunities globalisation offered for growth and development, and therefore the need to embrace it. But at the same time, it was perceived that accelerated transformations in the world economy, as a consequence of the participation in it of billions of workers and consumers previously isolated from international trade and finance, represented a major shock and was bound to give rise to adjustments of unprecedented magnitude. It was often foreseen that while bringing tangible benefits, this adjustment would also have deep consequences for citizens in all countries, destroy as well as create jobs, affect income distribution, and would thereby inevitably create economic, social and political tensions.

The assessment was therefore not complacent and a distinctive feature of the Progressive Governance agenda was to emphasise the twin role of domestic and international responses. In a kind of two-handed strategy, it was considered that a combination of bold domestic reforms and a strengthening of global governance would allow the most to be made of economic globalisation. Domestic reforms were designed to ensure that societies would be equipped to grasp opportunities offered by economic opening and to cushion their adverse effects on workers and local industries. Global reforms were designed to result in an appropriate multilateral framework for world trade and finance as well as in adequate provision of global public goods and to improve development perspectives.

2) Features of globalisation

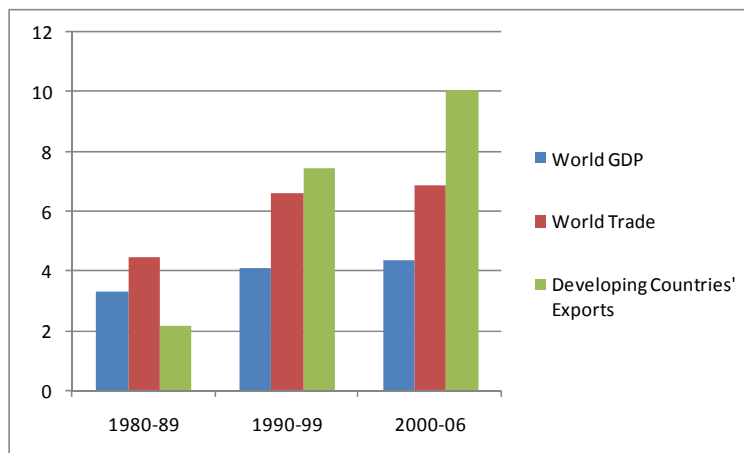
Having recapitulated the agenda, let us now turn to the evidence and present a few selected stylised facts at world level that highlight key recent features of economic globalisation and help assess how the vision and policy priorities of Progressive Governance measure up to major global trends.

Fact 1: Unprecedented integration through trade and foreign investment

Fact one is well-known: globalisation may have been a promise in the 1990's, it is now a reality. The pace of global integration has accelerated markedly in recent years through trade and foreign direct investment (Figure 1). While the current wave of globalisation is often compared to the previous wave of the late XIXth-early XXth century period, the current degree of integration, by most measures, exceeds the level attained before World War 1.

Furthermore, while cross-border transactions had primarily developed among advanced countries in the first decades of the post-World War 2 period, recent decades have seen a dramatic increase in the participation of emerging and developing countries in global trade and investment. Multilateral trade negotiations have played an important role in this process, but an even more important factor has been the adoption by an ever-increasing number of countries of deliberately outward-looking policies – with, as a result, an acceleration of growth in several parts of the developing world, especially in China and India.

Figure 1: Annual Growth in Real World GDP and Trade



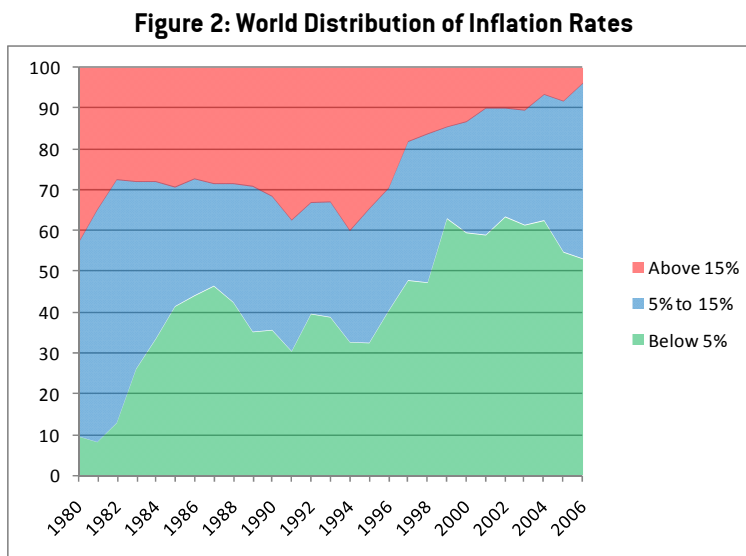
Source: Calculations based on IMF data

Qualitative transformations have been no less dramatic. Especially remarkable have been the rapid fragmentation of the value chain, increasingly leading to what economists have dubbed trade in tasks rather than final products, and the rapid rise of emerging countries in exports of technology- and skill-intensive products.

Developments in recent years thus vindicate the stance taken on openness and the essential importance of upholding the multilateral trade framework to accommodate increasing participation of developing economies in international transactions and qualitative transformations of the trading patterns.

Fact 2: Worldwide macroeconomic stability

A second important fact is the worldwide propagation of macroeconomic stability. In 1980, inflation was below 5% per year in less than one out of ten countries. Since 1999, this has been the case in a majority of countries in the world (Figure 2).



Note: The figure gives the proportion of countries with an inflation rate within defined brackets. Source: Calculation with IMF data.

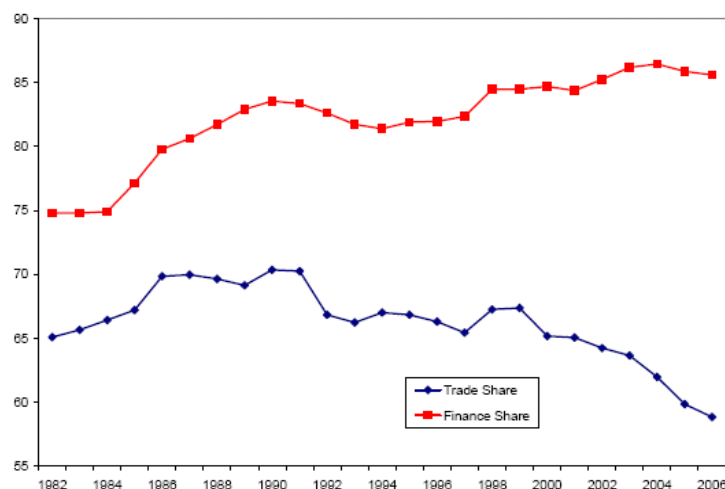
Worldwide convergence on low inflation has admittedly been favoured by the macroeconomic context of the 1990's. Recent shocks to the price of oil and raw materials have pushed prices up, several countries are again struggling with inflation, and the perspective for the coming years is less benign than it was in the early 2000's. Yet this should not conceal the fact that macroeconomic stability is and remains a major achievement of recent decades, underpinned by a near-universal move to central bank independence. Especially noteworthy is the fact that while advanced economies were first to embrace macroeconomic stability, developing and emerging economies have nowadays adopted broadly similar institutional set-ups and policy frameworks. This is a significant asset for navigating the probably less auspicious environment of the years ahead.

Fact 3: Uneven and lopsided financial globalisation

A third salient feature of the last two decades has been financial globalisation. In industrial countries, cross-border holdings of financial assets represented about a fourth of GDP in 1970 and only 50% in the mid-1980's, but in the mid-2000's they amounted to almost 200% of GDP on average. Especially, financial integration through portfolio diversification has developed dramatically within Europe and between Europe and the US.

However financial globalisation does not mimic integration through trade and foreign investment. To start with, participation in it remains limited in developing and emerging economies. There is a striking contrast between trade, where the previous pattern of North-North integration is being rapidly reversed, and finance, where it has accentuated markedly (Figure 3). This helps in understanding why the financial turmoil originating in the US immediately affected Europe, while emerging and developing countries have largely remained immune from it, at least for the time being.

Figure 3: Share of Advanced Countries in World Trade and Cross-Border Financial Positions

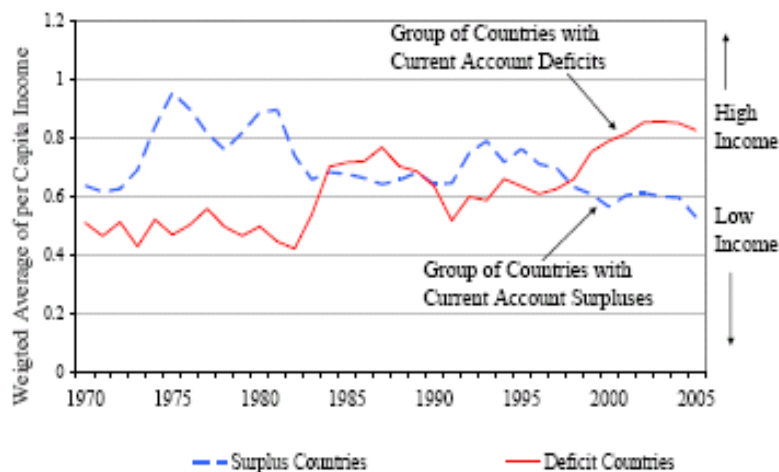


Source: Lane and Milesi-Ferretti (2008)

The limited participation of emerging and developing countries in international financial transactions, however, does not mean that *net* capital flows between them and the advanced economies are second-order. They have indeed grown, but the direction taken by these flows has been a major surprise. The near-universal expectation at the time of the liberalisation of financial accounts was that the rich countries' savings would flow to emerging and developing countries and help foster growth and development, provided certain macroeconomic and institutional conditions were met. In the event, the expected flows have taken place to a limited extent only, notably within Europe where the new EU member states have benefited from massive capital inflows. On a global scale, however, North-South capital flows have been highly erratic. Massive inflows into financially fragile economies have been followed by sudden stops and abrupt reversal. Moreover, North-South flows have on average been dwarfed by flows in the opposite direction. As indicated by Figure 4, the situation since 2000 has been that the average income of capital-exporting countries is lower than the average income of capital-importing countries. China and the US both highlight, and account for, a large part of this unusual pattern.

Several tentative explanations have been offered for this disturbing fact. From a positive standpoint, it is understandable that resource-rich countries refrain from consuming the totality of their current income and that relatively poor countries accumulate foreign exchange reserves to protect themselves against possible abrupt capital withdrawals. It can even be understood (while perhaps not being endorsed) why countries keep on accumulating reserves instead of letting their exchange rate float. From a normative standpoint, however, it is hard to find merit in a situation where the United States derives more than \$100bn in annual income from selling government bonds to investors and governments – largely from developing countries – and investing the corresponding proceeds in foreign equity.

Figure 4: Average income of capital-exporting and capital-importing countries, 1970-2005



Note: country incomes are weighted by the net savings exported (through current account surpluses) or imported (through current account deficits). The composition of, and weights for each group thus vary over time. Source: Prasad, Rajan and Subramanian (2007).

Despite widespread financial liberalisation, a handful of advanced economies thus account for the bulk of cross-border financial transactions, which suggests that reforming financial market regulation primarily remains the responsibility of the most financially developed countries. At the same time, financial globalisation results in savings flows that are questionable from an allocation point of view and whose political and financial sustainability are increasingly uncertain.

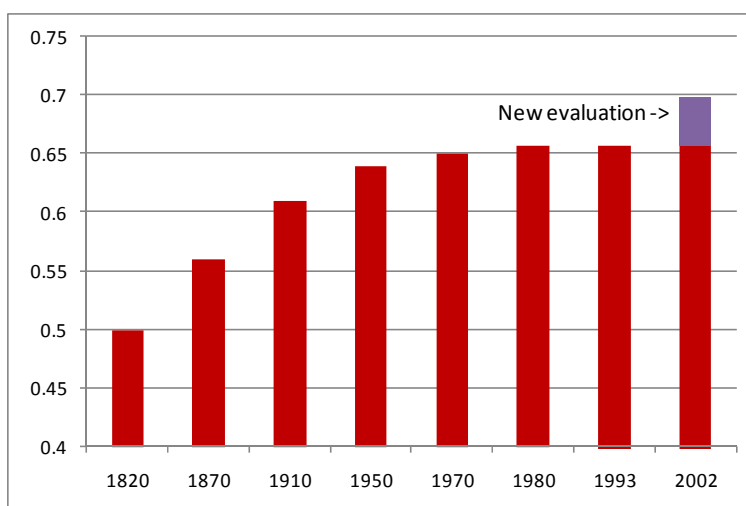
Fact 4: Global inequality stable at high level, within-country inequalities on the rise

Globalisation is often blamed for the high level of world inequality. However inequality means different things to different people: some look at inequality across countries, some at the fate of the world poor, some again at inequality within a country. Recent research has aimed at providing a measure of inequality among world citizens, *irrespective of the country they live in*. This is generally called *global inequality* and has the advantage of taking into account the distribution of income both *across* and *within* countries.

Figure 5, which gives a measure of the level of global inequality since the mid-1980s, indicates that it has remained roughly stable in recent years, after having grown dramatically from the early XIXth century until the 1970's. In other words, *prima facie* evidence suggests that the last wave of globalisation can be held responsible neither for a worsening nor for an improvement in the world distribution of income. As to the *level* of global inequality, recently revised estimates indicate that it is significantly higher than within any individual country in the world³.

³ Currently available data do not allow replication of the same measure for previous years. The upward revaluation of global inequality for 2002 does not give any indication as regards the evolution in comparison to previous years.

Figure 5: Global Inequality, 1820-2002



Note: Inequality is measured by the Gini coefficient. The new evaluation, from Milanovic (2007), is currently available for 2002 only. It is based on the December 2007 World Bank re-evaluation of purchasing power parity exchange rates. Source : Bourguignon and Morisson (2002), Milanovic (2007).

One reason why global inequality has not decreased in recent years despite the dramatic increase in the per-capita income of China, India and other developing countries is a widespread increase of within-country inequality. Table 1 presents estimates of the share of the top 1% of the population in total national income. While it has not risen uniformly, the evidence is one of significant changes in the income distribution in both developed and developing countries. It is especially pronounced in the US where the share of the top 1% households in national income has doubled and exceeds 20%, but changes are also significant in the UK, Australia, Sweden, China and India. By contrast, there have been no significant changes in the share of top incomes in major continental European countries such as Germany and France.

Table 1: Share of the Top 1% Households in National Income*, Selected Countries

Country	Early 1980's	Mid-2000's
United States	10	20.9
United Kingdom	6.7	12.6**
Australia	4.8	9.2
France	7.6	9
Germany	11	11
Sweden	4	7.5
Japan	7.2	9.2
China	2.8***	6
India	6.5	9.5

*Capital Gains included when available

**Early 2000's

***Mid-1980's

Source: France: Piketty (2003) and Landais (2007), Germany: Dell (2005), Sweden: Roine and Waldenström (2006), Japan: Moriguchi and Saez (2007), United-States: Piketty and Saez (2004), United-Kingdom: Atkinson (2004), China and India: Qian and Piketty (2006), India: Banerjee and Piketty (2003)

The simple fact that countries participating in global trade and investment exhibit very different patterns of internal inequality is an indication that inequality developments cannot primarily be ascribed to globalisation. Rather, they are primarily the consequences of domestic economic developments and policies. That being said, a well-known result from theory is that trade among countries of different development levels affects the distribution of income. In a similar vein, financial opening affects the return on capital and therefore incomes also. Globalisation is therefore likely to have added to pressures towards a widening of the income distribution (or towards the pricing-out of low-skill workers in countries such as France and Germany where wages are more rigid).

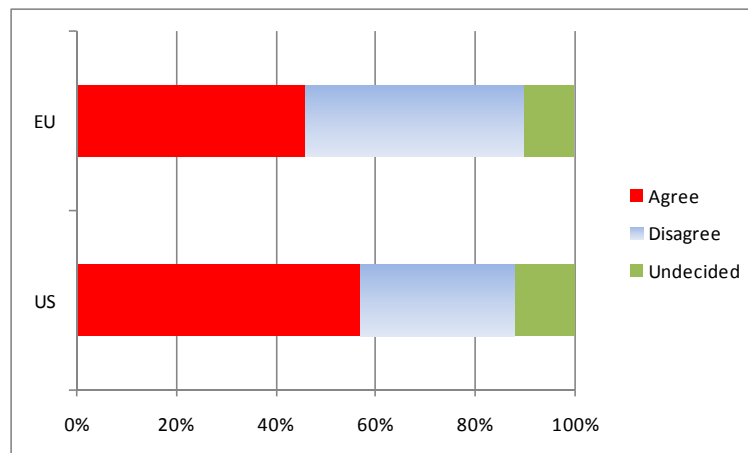
What could have been expected, therefore, was the implementation of redistribution policies designed to transform a gain for society as a whole into gains for its constituent citizens, so that opening did not make anybody worse off. In fact, domestic policies have in several cases compounded rather than offset the distributional effects of globalisation.

Inability to ensure a fair distribution of its benefits contributes to increasing grievances against globalisation and to undermining its social and political sustainability. This is a national responsibility but what national governments do, or don't do, contributes crucially to putting globalisation on solid foundations.

Fact 5: Opinion in rich countries blames trade for economic insecurity

The last stylised fact regards public attitudes towards trade and globalisation. Attitudes vary across countries and over time, but an unmistakable trend is that opinion has turned increasingly sceptical in several industrial countries. In the US a clear majority of public opinion now thinks that trade costs more jobs than it creates (Figure 6), and even in Europe a relative majority of respondents think similarly. Protectionist tones heard in the US primary campaign, especially on the Democrat side, are a direct reflection of public opinion's growing reservations.

Figure 6: Opinions on whether Trade Costs More Jobs than it Creates



Source: German Marshall Fund, 2007 Trade and Poverty Survey

What makes the situation especially worrying is that such opinions are expressed in spite of buoyant growth and employment creation in recent years. The US unemployment rate in early 2008 is still below 5% and about two-third of the unemployed have been without a job for less than three months, yet Americans blame trade for job destruction. How public attitudes will evolve against the background of deteriorating economic performance and what will be the policy consequences are a major cause for concern.

3) The agenda revisited

What do the facts highlighted in the previous section tell us about the appropriateness of the Progressive Governance approach to globalisation? Its underlying philosophy certainly remains adequate. Most of its key choices – especially as regards the emphasis on openness and macroeconomic stability – continue to be valid, as is the two-handed approach combining domestic reforms and a strengthening of global governance. However, important lessons need to be drawn from the experience of the last decade:

1. The speed and magnitude of the transformation affecting the world economy are larger than initially envisaged. Few observers in the late 1990's anticipated the pace of change resulting from the participation of China, India, and other emerging countries in trade and investment flows. Even fewer anticipated that emerging countries would quickly move from being exporters of unskilled labour-intensive products to being exporters of skill- and technology-intensive products. None realised that the fragmentation of production chains would reach the degree we are witnessing. In most respects, this accelerated transformation is excellent news. But it puts considerable adjustment pressure on all societies.
2. Domestic policy reforms have often been insufficient to cope with the magnitude of this adjustment challenge⁴. The Progressive Governance agenda included a balanced appraisal of the priorities, but European countries especially have been slow to modernise their social models and equip citizens with a greater ability to embrace change⁵; they have been slow also in investing in education and research⁶. Furthermore, at a time when external shocks were calling for a strengthening of the ability to redistribute, tax policy has often been deficient. In several countries, it has compounded rather than offset the increase in inequality resulting from technical change and globalisation. In retrospect, it seems fair to observe that this redistribution challenge was initially underestimated in the Progressive Governance agenda.
3. Some of the features of globalisation are disturbing. This note has highlighted the current pattern of international capital flows and has pointed out that it is disputable from a normative standpoint. By and large, financial globalisation, though in many ways positive, has been less beneficial than anticipated. Neither the observed volatility of international capital flows nor the build-up of current account surpluses in middle- and low-income economies and the corresponding transfer of savings to high-income economies can be considered satisfactory.
4. Against this background, the reform of international institutions has for long remained stalled and those institutions have as a consequence been facing both a crisis of legitimacy and a crisis of effectiveness. Again, the dispute is not about the initial assessment, but persistent stalemate in the WTO trade negotiations and the openly guarded attitude of several important Asian and Latin-American countries vis-à-vis the Bretton Woods institutions following the Asian crisis undermine the credibility and the effectiveness of the global governance system. The recent reform of quotas and votes is a step in the

⁴ This note does not allow a discussion of which governments have done well and which have been ineffective. This would in itself be important research to conduct.

⁵ See Sapir (2005) for a bird's eye view of the implications of globalisation for the modernisation of the European social models.

⁶ See Aghion et al. (2007) on the reform of European universities.

right direction, however a limited one, and it remains to be seen whether it will help to correct the situation.

In other words, the two-handed globalisation strategy outlined in the initial Progressive Governance agenda has not been invalidated by events, but has not been fully implemented. At national level, as well as at multinational level, action has often not been commensurate to the magnitude of the challenges. It is no accident that the countries where public opinion is the least sceptical vis-à-vis globalisation are those – in Scandinavia – that combine efficient labour markets, extensive redistribution and an active involvement in world governance, especially through development assistance.

4) Risks ahead

The analysis so far has been based on medium-term trends and has not addressed more immediate concerns. Three of them, which are of particular relevance for the discussion, deserve to be mentioned: the return of scarcity and the rise of concerns over economic security; the re-emergence of state capitalism and the development of Sovereign Wealth Funds; and financial instability. The purpose here is not to discuss each of them in detail, rather to underline their implications for the discussion on globalisation.

The return of scarcity

Until very recently, a natural assumption was that, in an era of globalisation, access to raw materials and commodities was guaranteed by the depth and resilience of the corresponding markets. Especially, food and energy security could rely on the depth and liquidity of global markets. The multilateral system was deemed strong enough for the participating countries to consider that it represented a form of insurance they could count on. There were certainly sectoral and national exceptions – oil, for example, was cartelised – but the trend seemed clear.

Recent developments point in the opposite direction. Energy importers have increasingly entered into a series of initiatives to secure access to resources through bilateral arrangements, especially for gaz. Even in the EU where member states could build on the single market to develop a system of common energy security, the nation state has been perceived as the ultimate provider of security and governments have taken individual initiatives, at the risk of jeopardising achievements at EU level. Food insecurity is a more recent phenomenon, but here again change is noticeable. The bans on exports recently decided by several producers of rice highlights risks of market fragmentation and will naturally push importers in the direction of bilateral arrangements.

The re-emergence of state capitalism

It is only natural that holders of financial assets from the emerging world have started to diversify away from government bonds and have created vehicles to invest in equity. The assumption that vast foreign asset positions resulting from current account surpluses could remain invested in low-yield securities at a significant macroeconomic cost was simply not tenable. Sovereign Wealth Funds are in this respect a welcome development consistent with the lasting character of the positions built and there can be mutual benefits in having them invested on the advanced economies' stock markets. By the same token, there is nothing disputable in the fact that major holdings remain state property, especially in countries where surpluses result from the exploitation of natural resources or have accumulated in the form of exchange reserves.

Countries where public policy has broken with the notion that the nationality of the owner of capital matters are more willing to accept changes in the ownership of companies active on their territory, provided investors offer

adequate guarantees of transparency and governance. However this is far from being the case everywhere: recent disputes within Europe about the takeover of banks or energy companies indicate that there are limits to what most governments and public opinions are willing to accept. By the same token the US has repeatedly proved sensitive to ownership as soon as a connection with national security could be made. So however welcome the provisions contemplated to ensure transparency and good behaviour on the part of investors' funds as well as receiving countries, politics continues to matter. At the very least, the vision that governments can afford to be nationality-blind has to be explained and publicised.

Financial instability

The last concern is financial instability. The turmoil that started to unfold in Summer 2007 involves many major policy challenges at national and multilateral level. Three should be emphasised here.

The first is that financial instability may endanger the achievements of macroeconomic stability. The policy framework put in place in many countries in the 1990's involved a financial stability component, but in most countries priority was assigned to price stability in the usual sense. How to revise the policy framework to better prevent financial instability, taking into account the threats to financial stability represented by low-probability but high-risk events, is a major concern in all countries.

The second concerns the regulation and supervision of the financial sector. Significant initiatives have been taken in the United States and Europe to prevent major defaults and avoid possible contagion to the entire financial system. Major regulatory initiatives are likely to follow (and have already started to be discussed). The difficult question is that of the regulatory quid pro quo: What are the improvements in transparency that are needed to improve the ability of financial players to assess and price risk? What are the reforms to the regulatory framework that are called for to avoid the rescue operations of 2007-2008 resulting in pervasive moral hazard and to ensure that decision-makers in the financial world respond to adequate incentives?

The third and last dimension concerns the multilateral framework for financial oversight. The network of central banks and international institutions put in place in the aftermath of the Asian crisis has been able to issue assessments and warnings, not to exercise effective prevention. It has neither fulfilled this role vis-à-vis governments (for which it had a mandate) nor vis-à-vis private players (for which it had no mandate). Furthermore, the rapid globalisation of international finance makes national supervision and oversight increasingly inadequate, especially in Europe where the banking sector has started to consolidate on a cross-border basis. How to design an adequate multilateral and regional framework is a major issue that needs to be addressed in order to be able to deal with the next crisis.

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The analysis developed in this note leads to a sober assessment of the challenges ahead for Progressive Governance in its strategy vis-à-vis globalisation. Whereas there is no reason to question its main tenets, the combination of major shocks, partial responses and a series of new, unrelated but equally challenging developments present serious difficulties.

One inference from the observations made in this note is that the continuing development of an open, multilateral world economy is less able to be taken for granted today than it could a decade ago when the Progressive

Governance agenda was first formulated. Until recently, governments could simply assume that globalisation was here to stay and adopt the posture that best suited their domestic political interests. In other words, they could afford the luxury to free-ride on globalisation. This was not a very advisable policy in the first place, but it was a policy one could adopt without taking too many risks. This time has probably passed and, in the coming years, the maintenance of an open, multilateral world economic system will require from the essential players a much more committed attitude⁷. Engagement in the multilateral trade negotiations, in the design of a robust regulatory framework for financial markets and in the reform of international institutions will be key ingredients in this respect.

Having embraced globalisation at an early stage, and having actively promoted it in the name of growth and economic development, the supporters of Progressive Governance must now confront the challenges raised by the experience of the last few decades and address the concerns stemming from recent developments. The definition of a renewed agenda should be the immediate priority. Its preparation should fully involve emerging and developing players and make them active participants in the rebuilding of the multilateral architecture. This is a major challenge. It should logically be a priority for progressive governments that have historically been advocates of multilateralism and effective international institutions. They have a particular stake in this venture.

⁷ Frieden (2006) provides an illuminating comparison between the current situation and that of the interwar period.

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