

David Audretsch · Erik Lehmann
Aileen Richardson · Silvio Vismara
Editors

Globalization and Public Policy

A European Perspective

 Springer

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Introduction

**David B. Audretsch, Erik E. Lehmann, Aileen Richardson,
and Silvio Vismara**

Abstract This volume analyzes and assess seven key policy issues facing the European Union and the United States and suggest various policy solutions in order to make the U.S. and the EU more competitive in these key sectors. The term *globalization* has exploded in the literature since the fall of the Berlin Wall in 1989. The world is growing ever-more interconnected and because of world's greater connectivity, there comes a slew of more problems, but also a greater variety of available policy solutions as countries can look to one another. This chapter addresses the effect that globalization has had, particularly on Europe and its partnership with the United States. Furthermore, the chapter introduces the seven topics to be discussed throughout the volume: income distribution, gender pay gap, crime and security, unemployment, health care, demographics, and environmental regulation.

The fall of the Berlin Wall on November 9, 1989 not only marked the end of the Iron Curtain dividing Germany and Europe. It also marked the beginning of a new era of economic, social and political interaction and interface, which, at least according to Thomas Friedman (1995) in his best selling book, *The World Is Flat*, was quickly categorized as *globalization*. At that point, the countries of Europe were not bound together by the Maastricht Treaty, which was ratified in 1992. There was no single currency, the Euro. That would first come on January 1, 2002. In fact, the name itself had not yet been invented or created, which would happen in 1995.

It would undoubtedly be wrong to assert that Europe had fewer or less pressing problems prior to globalization. There was, after all, the matter of imminent

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destruction posed by the cloud of the Cold War. For some 40 years people in both the West as well as the East had lived with the ubiquitous threat of annihilation.

Still, the economic, political and social record of Western Europe prior to the fall of the Berlin Wall is impressive. After all, the post-World War II era is generally considered to be a “golden age” for economic growth and performance in Europe. In the United Kingdom, the unemployment rate barely rose above two percent during the 1950s. Similarly, the rate of unemployment averaged around two percent, not just in countries like France and Italy, but for all of Western Europe. The unemployment rate in the United States reached a remarkable 2.9 % in 1953, and in only 1 year of that decade did unemployment exceeded 5.5 %.

The post-World War II economic boom in (West) Germany was even more impressive. Germany had been reduced to ashes from the devastation of the War. But by 1946, the rubble had been cleared away, and the one time militarized population had been demilitarized and put back to work in bustling plants and factories, pouring out manufactured goods and products for peacetime applications were greatly welcomed. Responding to double digit economic growth which was rapidly driving unemployment out of existence in Germany, the eminent British newspaper, *The Times*, characterized the unexpected rapid recovery, as the *Wirtschaftswunder*, or economic miracle.¹ The growth of industrial production was 25.0 % in 1950. In the following year, it was 18.1 %. Economic growth continued at such a high rate that by 1960 industrial production had increased by more than two and half times. Similarly, Gross Domestic Product (GDP) increased by two-thirds over that decade, while employment increased from 13.8 million in 1950 to 19.8 million in 1960. Unemployment fell in Germany from over 10 % at the beginning of the decade, to 1.2 % by the end of the decade.²

As the years and decades passed, the high rates of growth and virtual absence of unemployment proved not to be sustainable. Going into the 1970s and 1980s the rate of unemployment ratcheted ever higher as economic growth slowed.

In the era preceding globalization, each country had its own sovereign currency. In France it was the Franc, the Greeks had the drachma, the Austrians had the schilling, the Dutch had the guilder, and in Germany it was the deutschemark. This meant that the value of the currency in international markets could be adjusted as an instrument to maintain or enhance the competitiveness of that country’s goods and services. The chronic devaluations of the Italian lira and Greek drachma, for example, may have led to relatively low values of the two currencies, but they also ensured that goods and services in those countries remained competitive vis-à-vis European neighbors and non-European trading partners.

In addition, the myriad country specific standards, regulations, traditions and customs served as non-tariff barriers often preserving the competitiveness, at least in the domestic market of goods and services produced in these European countries.

¹ *Die Zeit* “Division 999” April 18 1946.

² Herbert Giersch, Karl-Heinz Paque and Holger Schmieding, 1992, *The Fading Miracle: Four Decades of Market Economy in Germany*, (New York: Cambridge University Press).

For example, in Germany, the *reinheitsgebot*, or purity laws in the brewing of beer, prohibited the sale of any beer in Germany that was not brewed in strict accordance to those regulations. Since, most other brewers in Europe, let alone elsewhere in the world, had not developed and evolved adhering to the *reinheitsgebot*, their brewing methods and the resulting product were not acceptable in Germany, thus erecting a virtual non-tariff barrier to the importation of foreign beer and maintaining the competitiveness of domestically brewed beer.

The fall of the Berlin Wall was largely considered to bring a new era of prosperity to Europe. Freed from the emotional and economic burdens of the Cold War, Europe would now be free to re-orient investments into productive applications, which presumably would enhance competitiveness. What was not well understood in those heady days following the fall of the Berlin Wall, that the era of globalization was already well underway. Europe had become oriented towards competition from North America and Japan. Increasingly, however, the new competition came from Central and Eastern Europe, but especially from Asian countries, such as China and India. In 1992, the mean wage per working day was only \$6.14 in Poland, \$6.45 in the Czech Republic, \$1.53 in China, \$2.46 in India and \$1.25 in Sri Lanka. By contrast, in the European Union the mean daily wage was substantially higher, at \$78.34.³

The production of goods and products that had been competitive in a stable Europe for decades were now suddenly under threat by the new global competition. Manufacturing started to sag in many European countries, as economic growth stalled and unemployment soared.

The advent of first the Maastricht Treaty in 1992 and subsequently the introduction of a single currency within the Eurozone in 2002 ended the viability of not just the exchange rate for the currency as an instrument generating and sustaining competitiveness, but increasingly the viability of the instruments of fiscal and monetary policies as well. Thus, European countries had lost their traditional policy instruments for maintaining competitiveness particularly at a moment in time when they needed them the most.

Globalization has brought many other challenges to Europe as well, ranging from issues involving national security, to immigration, and the provision of health and other key social services. This book discusses seven key policy issues and challenges that currently face the United States and Europe including: income distribution, the gender pay gap, crime and security, unemployment, health care, the demographic question, and environmental regulation. The purpose of this volume is to analyze how public policy within the European context is responding to the challenges posed by this new global era.

The first chapter, entitled “The Impact of Globalization on Income Distribution and Income Inequality,” by Giulio Paola Luongo, Theresa Pautzke, Daniel Rupp,

³David B. Audretsch, “Innovationen: Aufbruch zur Entrepreneurship-Politik,” in Klaus F. Zimmermann (ed.), *Deutschland—was nun? Reformen fuer Wirtschaft und Gesellschaft* (Munich: Deutscher Taschenbuch Verlag, 2006), pp. 237–250.

and Justin Tait investigates the role globalization has played in income distribution. The authors examine the variety of factors that influence inequality, including, tax policy, financial and capital flows, and access to education and transportation. Their analysis examines the impact these variables have on income inequality in the United States, Germany, and Norway, and they furthermore produce policy solutions for the three countries to combat their policy issue.

The second chapter by Davide Manetti, Ashley Meruani, Isabella Wagner, and Roman Zenetti, analyzes the gender pay gap in the European Union and the United States. The authors provide a detailed picture of the gender pay gap phenomenon by analyzing and examining the previous literature. They further identify both the positive and negative effects that globalization has had on the gender pay gap issue in both regions. Through the examination of best practices found in Nordic countries, the chapter proposes alternative strategies for the European and US governments aimed to progressively eliminate the gender pay gap.

The third chapter, entitled “Crime and Security in Europe and the US” focuses on the economic motives behind criminal activities. The chapter explains crime as an international phenomenon that is not limited to national borders, and thus discusses the interconnectedness of crime in Europe and the United States. The authors suggest understanding the motives and causes of crime are crucial to establish an effective judicial system aimed towards minimizing crime.

In the fourth chapter, Tanja Bosch, Jonah Otto, Martin Preuß, and Savini Ranaweera give a comparative analysis of Germany and the United States’ unemployment problem since the beginning of the global recession in 2008. By examining unemployment policies in the two countries, the paper provides a thorough analysis of the unemployment problem and gives a detailed policy solution for the governments to implement.

In the fifth chapter, “A cross comparative analysis of the U.S., German, and Italian Health Care System,” the authors give a thorough analysis of three countries’ health care system, outlining the positives and negatives of the three countries. The chapter discusses the challenges that each system faces despite their different structures, the authors claim each system is in jeopardy. They conclude with policy recommendations guiding towards a future of positive global healthcare policies.

The sixth chapter focuses on the demographic shift in Germany and wide-ranging policy implications that could arise from Germany’s low birth rate. Steffen Braman, Mohammad Imran Qureshi, Swita Samimi, Nathan Viets, and Daniela Zanga examine the long-term viability of the current German pension system under Germany’s current decreasing birth rate and family structures. In addition to the pension system, the authors discuss the negative population growth effects on medical care and unemployment. The chapter concludes with a policy recommendation for Germany’s pension system.

The final chapter discusses the world emission levels of CO₂ and greenhouse gas emissions. The authors specifically look at the automobile sector and the rise of emissions due to industrialization and globalization. After an analysis of the global issue, the paper suggests three policy recommendations to be implemented at the U.S. and German national level with the possibility of engaging the international community to combat this serious world-wide environmental issue.

The Impact of Globalization on Income Distribution and Income Inequality

Giulia Paola Luongo, Hugo Menendez, Theresa Pautzke, Daniel Rupp,
and Justin Tait

Abstract This paper investigates how globalization is related to income distribution and income inequality, especially in the United States, Germany and Norway. Information on income distribution among the citizenry, causes of inequality, the consequences of inequality, and potential policy solutions will be discussed. Income inequality in advanced, developed countries is resultant of a variety of factors, consisting of, but not limited to, tax policy, financial and capital flows, education access and equality, as well as access to transportation services and the equality thereof. This work examines the impact these variables have on income inequality in the United States, Germany and Norway and moreover suggests potential solutions to combat income inequality and their practicality in the current political and economic environment. The findings indicate that the reviewed factors have a significant impact on the distribution of income and that there are several policy solutions that can serve to meaningfully reduce income inequality in these countries.

1 Introduction

Globalization has received increasing attention in recent years due to its widespread impact. One of the effects of globalization is that is increased inequality between individuals and nations (Mazur, 2000), marginalizing the poor in developing countries and leaving behind the poorest countries (Kremer & Maskin, 2006). If instead we focus on countries integrated in the world economy, income gaps have

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