

## Preface

This book is on the implications of factor mobility and, more generally, globalization on the effectiveness of social and economic policy. As a policy issue, the role of economic integration on the working of the welfare state is top of the agenda for most national governments. As an intellectual issue, it is the subject of a great deal of interest and exciting work, both theoretical and empirical.

We analyze causes and consequences of international factor flows and the effects of public policies on these flows in a framework which allows for imperfections in the markets for labor and capital and for some of the basic features of the welfare state such as tax and transfer programs, old-age security, etc.

The traditional textbook analysis of international trade and labor movements typically ignores the basic features of the welfare state such as income maintenance programs, income distribution schemes, pension programs, etc. Similarly, capital movements are mostly analyzed in a frictionless and perfect-information world economy. Under such circumstances, barriers to capital flows are always undesirables, very much in the spirit of the gains-from-trade postulate. Despite the volumes that have been written on the globalization of capital markets and the desirability (or costliness) of regulating capital flows, there has been astonishingly little work on the magnitude and composition of capital flows when there are distortions. By the same token, the traditional public economics analysis of the welfare state is typically conducted in a closed economy. Similarly, the theory of finance and capital structure very seldom treats international capital flows and their implications for the real side of the economy, which emphasizes central macro variables such as saving and investment.

This book fills a gap in the literature by combining elements from these seemingly

disjoint parts of economics and presents them in a consistent analytical framework.<sup>1</sup> By doing this, it will lay the ground for the beginning of an integration of the aforementioned disciplines into a unified treatment of globalization. The book is intended as a compact textbook for advanced undergraduate and graduate courses in special topics in international economics and public economics. It can also serve as a reference text for applied researchers and policy professionals.

In writing this book we greatly benefitted from collaboration with colleagues.

Chapter 12 is an edited version of a paper co-authored by Gian Maria Milesi-Ferretti and Assaf Razin, “Current Account Reversals: Empirical Regularities,” which was published in the volume edited by Paul Krugman, *Currency Crises*, University of Chicago Press (2000).

Two sections of Chapter One draw heavily on a paper co-authored by Helpman and Razin, “Increasing Returns, Monopolistic Competition, and Factor Movements: A Welfare Analysis,” which was published in the *Journal of International Economics* (1983).

Chapter Ten is based on our joint work with Chi-Wa Yuen, “Excessive FDI Flows under Asymmetric Information,” which was published in the volume edited by Reuven Glick, Ramon Moreno, and Mark Spiegel, *Financial Crises in Emerging Markets*, University of Chicago Press (2000a).

Likewise, Chapter Eleven is based on our joint work with Chi-Wa Yuen, “Social Benefits and Losses from FDI: Two Non-traditional Views,” which was published in the volume edited by Takatoshi Ito and Anne Krueger, *Regional and Global Capital Flows*:

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<sup>1</sup>The related books include: Bhagwati and Feenstra (1987) and Wong (1995) on the international trade side; Smith and Edmoston (1997) and Stark (1991) on the migration side; and Razin and Sadka (1999) on the public economics side.

Macroeconomic Causes and Consequences, University of Chicago Press (2000b).

Chapters Five and Six draw on our joint work with Philip Swagel, “Tax Burden and Migrations: A Political Economy Theory and Evidence,” mimeo, Tel-Aviv University (2000a).

We thank wholeheartedly our long-time collaborators Gian Maria Milesi-Ferretti, Elhanan Helpman, Chi-Wa Yuen and Phillip Swagel for letting us use some of our joint work in this book.

In writing this book we drew also on our previous work as follows:

“International Migration and International Trade,” in: Rosenzweig, Mark R. and Oded Stark (editors), *Handbook of Population and Family Economics*, Vol. 1B, Elsevier Science B.V. (1997).

“Migration and Pension with International Capital Mobility,” *Journal of Public Economics* (1999).

“Unskilled Migration: A Burden or a Boon for the Welfare State?” *Scandinavian Journal of Economics* (2000).

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Special thanks are due to Scott Parris, economics editor of Cambridge University Press. Having come across our earlier book, *Population Economics*, MIT Press (1995b), he approached us with a question: “Why not write a similar textbook on globalization?” We considered his suggestion thoroughly and came out with the idea of writing a compact textbook which focuses on major aspects of cross border flows of labor, capital and finance.