

Acknowledgments

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Exhibit Notes and Data Sources

EXHIBIT 1

Exports of goods and services and gross national income: World Bank, World Development Indicators (WDI) database.

Foreign direct investment, outward stock: United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment database.

Portfolio investment assets (stock measure): International Monetary Fund, International Financial Statistics database.

International tourist arrivals: World Tourism Organization; midyear world population, U.S. Census Bureau.

Internet users, mobile phone subscribers, international telephone traffic: International Telecommunication Union.

EXHIBIT 2

Inflation, top seven countries by GDP, extracted using Haver Analytics database: Bureau of Labor Statistics (U.S.); Ministry of Internal Affairs and Communications (Japan); Statistisches Bundesamt (Germany); Institut National de la Statistique et des Etudes Economiques (France); Office for National Statistics (U.K.); Istituto Nazionale di Statistica (Italy); and Statistics Canada.

Percentage change in consumer prices: International Monetary Fund, International Financial Statistics database.

Sound money scores: *Economic Freedom of the World: 2005 Annual Report* (EFW), James Gwartney and Robert Lawson, Fraser Institute, September 2005, www.freetheworld.com. The sound money index (category 3) is based on rate of money supply growth, inflation variability, recent inflation and freedom to own foreign currency.

A.T. Kearney/Foreign Policy Globalization Index 2005, www.atkearney.com and www.ForeignPolicy.com. Index is based on trade and foreign direct investment flows, international travel, international telephone traffic, cross-border remittances and personal transfers, number of Internet users and secure

servers, international organization memberships, contributions to U.N. peacekeeping missions, multi-lateral treaties, and international governmental transfers and receipts. The Dallas Fed eliminated Croatia and Botswana from the 62-country data set because other indexes used for comparisons in this report do not always include these countries.

EXHIBIT 3

Freedom to trade: EFW, category 4, parts A–D. Index is based on taxes on international trade, regulatory trade barriers, size of the trade sector relative to its expected size, and the difference between official and black-market exchange rates.

Capital market openness: EFW, category 4, part E. Index is based on access to foreign capital and restrictions on global capital transactions.

Freedom from overregulation: EFW, category 5. Index is based on regulation of credit markets, labor markets and regulatory obstacles for business.

Regulatory quality: World Bank Institute, 2005 governance indicators (WBI), www.worldbank.org/wbi/governance/govdata. Index is based on such measures of government intervention policy as price controls, selective business protections, barriers to starting a business, and excessive regulation in such areas as administration and business development.

Favorable corporate taxes: Heritage Foundation/Wall Street Journal, www.heritage.org/research/features/index/downloads.cfm. Index is based on top marginal corporate tax rates, a component of the 2006 fiscal burden of government index.

Innovation policies: "National Innovative Capacity," Michael E. Porter and Scott Stern, www.isc.hbs.edu/Innov_9211.pdf. Index is based on effectiveness of intellectual property protection, a country's ability to retain its scientists and engineers, and the size and availability of research and development tax credits for the private sector.

Political stability: WBI. Index is based on stability of government's power, vulnerability to revolutions, internal and external conflicts and wars, political assassinations, extremism and terrorism.

Accountability: WBI, voice and accountability subcategory. Index is based on civil liberties, political and human rights, government checks and balances, and accountability of public officials.

Rule of law: WBI. Index is based on incidence of crime, police quality, judicial effectiveness and predictability, and contract enforceability.

Property rights: EFW, category 2. Index is based on judicial independence, impartial courts, intellectual property protection, military interference in the rule of law and political process, and legal system integrity.

Government effectiveness: WBI. Index is based on credibility and effectiveness of government actions, consistency and stability of policy, competence of civil servants and their independence from political pressure, and quality of public service provision.

Anticorruption policies: Corruption Perceptions Index, 2005, Transparency International, www.transparency.org/surveys/index.html#cpi. Index is based on frequency and size of bribes, misuse of public office for personal or political gain, implementation of anticorruption initiatives (audits and disclosures), protections for whistleblowers and media coverage of corruption.

EXHIBIT 4

Weeks of wages and labor market flexibility: 2006 Doing Business database, World Bank Group. The Dallas Fed calculated the flexibility index using the hiring and firing workers subcategories, which measure cost of hiring and firing workers, rigidity of working hours, Social Security payments by the employer and retirement benefits.

GDP per capita: WDI database; International Institute for Management Development, *World Competitiveness Yearbook*, 2005. GDP is adjusted for purchasing power parity.

EXHIBIT 5

Government size: EFW, category 1. Index is based on general government consumption spending as a percentage of total consumption, government domestic redistributive transfers and subsidies as a share of GDP, government enterprises and investment as a share of total investment, and top marginal income and payroll tax rate.

Transfers and subsidies: EFW, category 1, part B. Index is based on government domestic redistributive transfers and subsidies as a share of GDP.

Individual income taxes: Heritage Foundation/Wall Street Journal. Index is based on top marginal income tax rates, a component of the fiscal burden of government index.

EXHIBIT 6

World freedom index: The Dallas Fed calculated the index using the EFW chain link index. The index measures size of government, legal structure and property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor and business. We estimated missing values and weighted all values for 123 countries by the corresponding population data. We summed each year's values and interpolated five-year intervals.

Gross world product per capita (i.e., gross national income for the world), adjusted for purchasing power parity: WDI database.

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