The Cliff at the Border[1]

Lant Pritchett

I begin with Keynes famous description of the world (well, London, well, upper middle class London) at the apex of the "first globalization" just before that world's tragic end in the carnage of World War I, dividing his text into four sections:

> *What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! …in[to] the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep;*

What better description could there be of the benefits to the sovereign consumer of the liberalization of goods (note already his awareness of the role of income inequality in this, these are available to the "middle and upper classes"). This description is even truer today, as technical advance has put even more "conveniences, comforts and amenities"—like air travel, cell phones, medical care, air conditioning—on offer and globalization of the trade in goods has augmented this—leading to goods of amazing variety (e.g. foods from every corner of the earth), availability (e.g. fruits year round), and low cost. The material lifestyle of the middle class of rich countries today far exceeds that of the nobility of centuries ago.

> *…he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the*

[1] This is a contribution to the volume, **Equity and Growth in a Globalizing World,** edited by Ravi Kanbur and Michael Spence and is based, very loosely, on comments at a session sponsored by the Growth Commission on globalization. I would like to thank Michael Clemens for comments on a preliminary version.

> *world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend.*

Again, a wonderful description of the glories of the liberalization of capital—interestingly both equity and debt, and with more extensive bond markets that even exist today (the “townspeople” of relatively few “substantial municipalities” are able to issue bonds internationally, or so much more prosaically, invite people to “couple their fortunes” with their “good faith”). But again today, one can, with the click of a button, “adventure [your] wealth” into index funds of Indian stocks or Brazilian bonds.

> *He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could dispatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference.*

Often overlooked in favor of the much more widely cited passages about Londoners enjoying the “products of the earth,” this is an excellent description of the mobility of people. Notice that the travel is “without passport or other formality.” Notice also the sensitivity (or lack thereof?) to the inter-personal distribution of income and to who these benefits of globalization are available tucked into just how one gets foreign exchange for travel: one “dispatches” one’s servant of course.

This liberality has not been recreated, in two senses. Even for the elite of the world there is not longer travel without formality—even as a traveler from the most powerful nation on earth and with sufficient funds, I can attest to the need for constant “formalities” to travel. But more importantly, at least within certain areas there has also been free mobility for all people—up until roughly 1914 there were open borders for the movement of labor from Europe to not just the Americas, Australia, and New Zealand but also to Latin America, and for the citizens of Great Britain to other British Colonies, and more complex flows (e.g. some voluntary, some restricted, some forced) elsewhere within the Empire as well (e.g. the movement of Indians to Africa and the Caribbean)

These three passages illustrate the first point I wish to make. The world of the first great globalization came to an end, or at least the beginning of its end, in August 1914. As we all know, the end of this first globalization was followed by some extremely nasty bits of history, with two extremely bloody "world" wars, the rise of Leninism/Stalinism in Russia—with brutality and famines and a staggering loss of life orchestrated by the state--the rise of Fascism in Europe—with the attempted genocide of Jews, a staggering loss of life orchestrated by the state.

Keynes himself, conscious of the world having lost the first peace, was instrumental in attempting to win the second peace by establishing institutions following World War II to recreate the globalization that has created the previous "extraordinary episode in the economic progress of man" and avoid calamities. In this, the world has been fantastically successful in recreating two of the three liberalities. But in the 30 years between 1914 and 1944 (the Bretton Woods conference) apparently all appetite had disappeared for the third element of the first great globalization. There was no attempt to recreate the globalization of labor markets, no creation of institutions of encourage and manage that process, no equivalent of the WTO or IMF for the movement of people[2].

[2] There was in fact an International Organization for Migration set up (which still exists) but the objective of that group was to facilitate the return of refugees, rather than having the broader policy agendas of the institutions intended at Bretton Woods (the WTO taking more than 50 years to acquire independent organizational status).

This, combined with the movement for de-colonization following World War II has led us all into the grand experiment I call the world of the POSEBLL, a Proliferation of Sovereigns combined with Everything But Labor Liberalization. This is a sufficiently ugly acronym I alert the reader why I use it: to pose a question with a terrible pun at the end: "Is more than the POSEBLL possible?"

The first point I wish to make is that the world of the POSEBLL has led, as expected, to the equalization of prices of goods, equalization of the prices of capital. But, perhaps unexpectedly, it has also led to very uneven progress in the newly proliferated sovereigns and this, combined with binding quantitative restrictions on the movement of labor, has also led to massive gaps in the wages of equivalent labor around the world and sustained divergence in the per capita incomes across nation-states.

Keynes goes on to make a much deeper point about attitudes, which leads to the second point I wish to make.

> *But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice.*

What is interesting about this passage (and the end of the one above) is that the "internationalization" was regarded as a perfectly normal course of events and one would have been "aggrieved" and "surprised" at any attempts to deviate from this obvious and natural pattern of free movement (at least of Londoners with servants). Moreover, he regarded this situation as "certain" and "permanent" the logic of internationalization was such obvious common sense it was impossible to conceive a move to a fundamentally different arrangement. But this world did end, dramatically, and for a very long time, as what was so certain about the world became first contested and then obviously false.

Since I have begun with quotes from Keynes, let me turn to his great predecessor, Karl Marx:

> *Hegel remarks somewhere[*] that all great world-historic facts and personages appear, so to speak, twice. He forgot to add: the first time as tragedy, the second time as farce. …Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living.*

The second "globalization," the world of the POSEBLL, is repeating the great world-historic fact of the first great globalization, but this time, following the tragedy of its demise, as farce. The real puzzle is why people continue to assert that we live in an age of globalization when we so obviously do not live in a world of globalization. We live in an age of *nationalization,* a nationalization which is a deep, radical, and unprecedented in the long history of mankind[3]. After all, your *first* encounter in *every* country you visit is with the people who enforce the regulations about the movement of people *intended* to keep the world from being flat—and it is obviously successful (which I will document at length with new empirical results about wage gaps).

The second section of this paper addresses the conundrum that in our supposedly "globalized" world we think about "equity" in completely *nationalized* ways. This

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[3] I return to this point, especially in the second section. What is unique is not that the world is divided into a large number of sovereign states, this process of "globalizing" empires followed by fracturing into independent states has been repeated a number of times. What is new this time around is the association of the relatively new concept of the *nation* with the age-old concept of the *state,* which is what I refer to as "nationalization"—which is the combination of statehood and an ideology of the "nation" into "nation-states."

nationalization of our lived reality is so deep and so complete that lists of issues of "equity" and "justice" in a globalized world will include: (1) the differentials between Guatemalan men and Guatemalan women are raised as an example of gender inequity, (2) the treatment of indigenous Guatemalans versus other Guatemalans is raised as an example of ethnic inequity, (3) the issue of the gap between the landed and landless is raises as an example of persistent economic inequity, (4) the reduction in trade barriers causing an increase inequality across people of different skills is raised as an example of the inequities induced by "globalization," (5) the issue of education gaps between rich and poor within Guatemala are presented as examples of perpetuation of poverty/inequality across generations, (6) the issue of value chains in coffee sold by Guatemalan farmers are adduced as inequities in globalization, etc. One can get very far into lists of "equity" problems around which people are willing to mobilize before the gap in wages induced by US restrictions on the movement of Guatemalans ever comes up. Thomas Friedman can write that the world is flat in the same way, and for the same reasons, that Thomas Jefferson could write that "all men are created equal" while owning slaves—the nationalizing "tradition of dead generations" weighing on our (collective) brains.

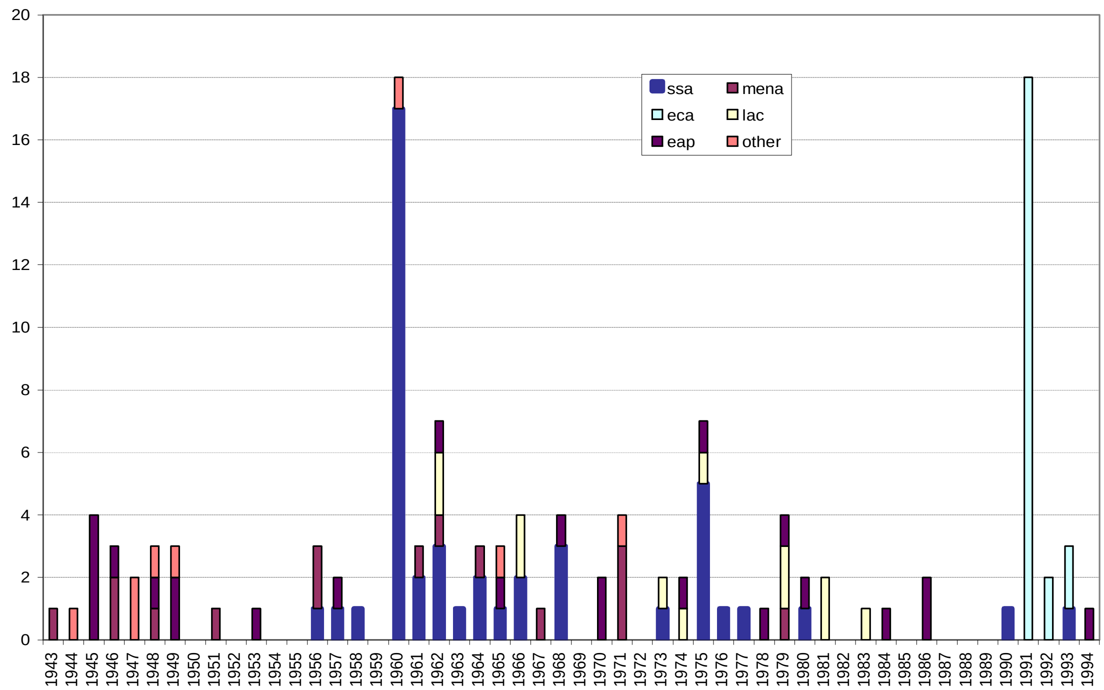
In discussions of "globalization and equity" I am a triply impolite guest. First, I dispute the premise that, from the point of view of the developing countries, "globalization" is a primary phenomenon of our time. Second, I argue that all of the issues discussed under the context of "globalization and equity" around "everything but labor liberalization" are trivial compared to the one that is not—cross-border flows of labor. Third, I argue that we lack a coherent way of talking about equity that does not depend on an arbitrary advancement of “nationality” to a first rank justification of acceptable differences in well-being, which is an incoherent way of talking about globalization.

I) The Proliferation of Sovereigns

I was born in Idaho, a state in the upper Northwest primarily famous for potatoes and, at least for a while, for crazy white supremacists and survivalists. Suppose that in 2009 Idaho withdrew from the (formerly) “United” states and became a sovereign country, with its own flag, military, money, laws, courts, passports, etc.—all of the trappings of a sovereign state. At independence suppose Idaho also simultaneously announced a 25 percent tariff on all goods entering Idaho from any foreign country, including the remaining other 49 states. Now suppose times goes on and ten years later in 2019 Idaho “liberalizes” its trade by reducing their tariff to 10 percent. One could easily find the impact of this policy shift of some interest. But any academic who proposed that “integration” of Idaho into the US economy was the primary question of interest due to this modest liberalization of cross-border flows would be laughed out of the room. Obviously the key experience of interest would be the *disintegration* of Idaho from the rest of the United States from the acquisition of sovereignty, not the subsequent liberalization.

A key feature of the post-WWII period is the incredible proliferation of sovereign states so that the number of nation-states has risen from around 50 to around 200. As illustrated in Figure 1, this happened in roughly three waves, a group immediately following WWII (including importantly Indonesia and India and Pakistan), a group of primarily African countries gaining independence around the early 1960s (with a another group of the formerly Portuguese colonies gaining independence in 1974/5), and finally the proliferation from the disintegration of the Soviet Union and some of its satellites (e.g. Czechoslovakia, Yugoslavia). So, while all of the major industrial countries have been sovereign states for 100 years or more, most poorer countries (the obvious regional exception being Latin America) were in some kind of colonial or quasi-colonial relationship that limited sovereignty over policies until (relatively) recently.

Figure 1: Number of new states added per year, 1943-1994 by region



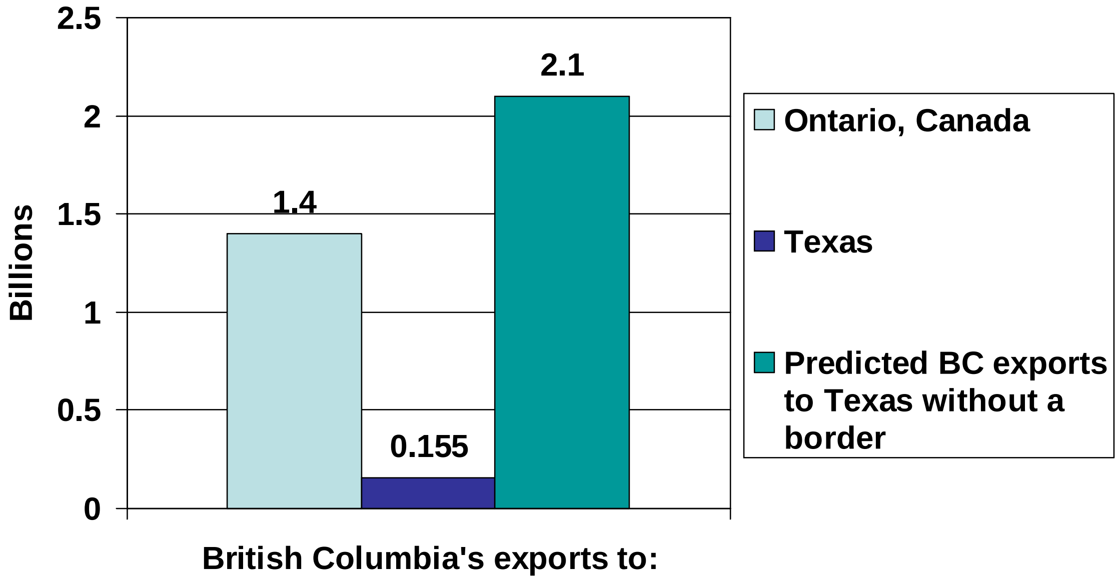
Many of these countries, on acquiring sovereignty over economic policy did pursue a rather aggressive form of the use of trade barriers for many reasons (including revenue needs from tariff collections and export taxes in the absence of other instruments, reaction to the "forced" liberality under colonialism and the wish to assert autonomy, as well as a general ideology of state led industrialization). Since the emergence of the debt crisis (signaled by Mexico's August 1982 announcement it would not be able to service its debt) there has been a cumulative, gradual, but by now nearly complete shift towards a dismantling of the more egregious barriers and a general liberalization of trade.

However, very few countries have gone beyond the liberalization of the cross-border trade in goods (including regional customs unions and "free trade" areas) and the relaxation of control on some types of capital flows, to engage in any really significant "deep integration" (e.g. common currencies, free movement of labor, harmonization of regulation). In fact, about the only significant experience with "deep integration" has been that of the European Union and, to a much lesser extent, NAFTA.

Which is more important in the experience of say, Kenya or Jamaica or Indonesia, the nationalization implicit in sovereignty or the globalization implicit in cross-border liberalization of the flows of goods (and perhaps capital)?

A set of recent studies examined the extent to which trade between Canadian provinces exceeded that of trade between a Canadian province and a US state. The pioneering paper by McCallum (1995) showed that trade between British Columbia and Ontario was US$1.4 billion while trade with Texas was only 155 million, whereas if one predicted the trade with Texas if it were a province of Canada and hence there was a zero border effect would be US$2.1 billion. It is striking that one of the most liberalized borders in the world still appears to be a huge deterrent to trade. This suggests that the mere fact of the borders created—along with the creation of different currencies, difference courts, etc.—by the proliferation of sovereigns may have been only mildly mitigated by the subsequent liberalizations to date.

Figure 2: Differences in trade flows between British Columbia comparing Ontario and Texas demonstrates the importance of the US-Canada border



Source: McCallum, 1995

While there are unquestionably increased cross-border flows of goods in most countries and in capital in some, the question is whether this implies the world is, in any relevant sense, "globalized" or that "globalization" is a useful lens to examine recent times. I argue that at the very least this is not obvious, especially for the poorer countries which acquired sovereignty and hence acquired a set of institutions (e.g. distinct currencies, domestic regulations, independent courts) that, no matter how "liberal" explicit trade policy is, create frictions to trade.

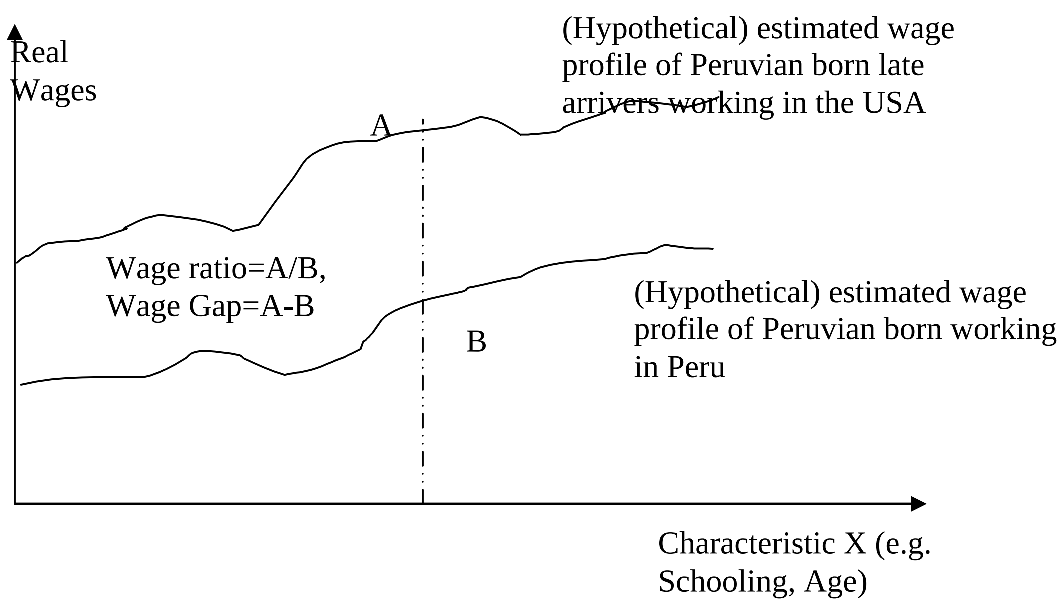
II) From the top of the cliff for labor you cannot see other globalization issues

That there are gaps in real wages, adjusted for purchasing power, across countries is obvious. These need not be due to restrictions on the movement of labor or lead to pressures for labor movement if the differences are due to the intrinsic productivity of the worker. After all some basketball players make millions of dollars, much more than I do, yet this, in and of itself, it no evidence that there are “barriers” to my employment as a professional basketball player other than that fact that, being both short and slow, I have low productivity in that occupation. But there clearly are restrictions that are intended to restrict the mobility of persons across nation-state borders—every airplane arriving in the US is met by (armed) officials whose job it is to prevent the entry of unauthorized persons. The question is, how much more would people from other countries make if they did not face these restrictions and people in the USA could pay them a wage that reflected their productivity in the USA? Or, more prosaically, how high is the cliff that blocks labor at our borders?

A recently completed study of mine, with two co-authors, Michael Clemens and Claudio Montenegro, answers precisely this question. We take advantage of two sources of data. First, we used a collection of data sets from around the world that recorded wages of individuals and some relevant characteristics (e.g. their years of schooling, age, sex). Using this data we could adjust the wages that individuals make in their home country for observable characteristics related to their productivity. The second source of data was the US Census. The US Census also collects information on wages and the characteristics of individuals such as years of schooling, age, etc. Most importantly, it also contains information on a person’s country of birth and when they arrived in the USA.

Let me use Peru as an example to illustrate what these two sources of data allow us to do. We can compare the predicted real consumption (PPP adjusted) wages of a Peruvian born, Peruvian educated with 9 years of schooling, male, 35 years old, urban resident working in Peru to the observable equivalent person—Peruvian born, Peruvian educated with 9 years of schooling, make, 35 years old, urban resident. Figure 4 just illustrates that this involves estimating a wage profile, the relationship between wages and characteristics (illustrated for just one characteristic, X, but in reality this is a multi-dimensional surface), in Peru and a wage profile for late-arriving Peruvians in the USA. Then one can "drill down" through those wage surfaces at any given point on the wage profile to estimate the wage gap between observably identical individuals in the USA and in Peru. The figure is drawn with squiggly lines to emphasize that the empirical procedure imposes almost no assumptions on the shapes and form of the two profiles (e.g. we do not impose the wage returns to schooling are the same in the two countries).

Figure 4: Wage profiles to estimate the wage gap



Given our data, we were able to estimate the wage ratios of observably equivalent workers in the US and 42 different developing countries around the world. The results for our particular comparison are in Table 1. The apparently same worker from these countries makes *five times* as much in the USA as in their home country. That is, on average an annual wage income P$15,000 higher.

Table 1: Wages of observably equivalent workers across the US border for 42 countries

Country	Comparing low skill (9 years of schooling), male, 35 year old: Annualized wage difference	Ratio	Comparing wages with college degree in home to workers with primary schooling working in the USA
Yemen	$21,772	15.45	11.43
Nigeria	$17,155	14.85	7.79
Egypt	$18,660	11.92	11.93
Haiti	$15,738	10.31	4.19
Cambodia	$20,737	7.45	6.4
Sierra Leone	$15,977	7.43	3.7
Ghana	$17,164	7.12	4.22
Indonesia	$17,478	6.72	3.17
Pakistan	$18,019	6.57	2.95
Venezuela	$17,471	6.57	3.69
Cameroon	$17,807	6.53	7.38
Vietnam	$16,753	6.49	3.92
India	$19,340	6.25	2.96
Jordan	$16,439	5.65	3.98
Ecuador	$14,300	5.16	3.26
Bolivia	$15,455	5.03	3.34
Sri Lanka	$14,666	4.95	1.26
Nepal	$11,524	4.85	4.37
Bangladesh	$14,891	4.60	2.19
Uganda	$15,318	4.38	2.3
Ethiopia	$14,772	4.35	2.4
Guyana	$16,888	3.87	1.39
Philippines	$13,615	3.82	1.42
Peru	$15,149	3.79	1.6
Brazil	$17,423	3.76	1.66
Jamaica	$15,421	3.63	1.55
Chile	$16,057	3.53	1.6
Nicaragua	$13,412	3.52	1.42
Panama	$14,368	3.36	1.54
Uruguay	$20,962	3.10	1.9
Guatemala	$12,295	2.94	1.73
Colombia	$12,330	2.88	1.65

Paraguay	$17,674	2.78	1.1
South Africa	$20,311	2.75	0.65
Turkey	$12,877	2.68	1.46
Argentina	$13,700	2.54	1.37
Mexico	$10,679	2.53	1.31
Belize	$14,959	2.43	1.16
Thailand	$9,859	2.17	1.04
Costa Rica	$9,982	2.07	1.24
Morocco	$8,970	2.00	0.62
Dominican Rep.	$8,912	1.99	1.3
Mean	$15,411	5.11	2.99
Median	$15,438	4.11	1.82

Of course, the correcting the wages for a few simple observable characteristics might not fully adjust for equal productivity such that we know that the gains in the table above would be the gains to a worker moving across the border. Perhaps comparing the wages of Peruvians here to Peruvians there, even correcting for their education, overstates the wages gains from migration because those that moved would have been more productive had they remained at home than those that did remain at home. That is, perhaps people who move have more "pluck" or drive or ambition or some other personal characteristic that makes them more productive in either place. In this case "positive selection" of migrants would lead to an *over*statement of the wage gain from just comparing observable equivalent individuals. In our paper, CMP (2008) we devote considerable attention to this issue and deploy several new sources of evidence about the range of the magnitude of the adjustment for positive selection we should typically expect (while anticipating it would vary across countries). Overall we find that there is some evidence of positive selection, such that, if one wanted to be conservative about the adjustment you could divide the ratios of the wages "observably identical" workers by a factor of around 1.2 (the range is from 1.0 to 1.4) to get to "equal productivity" workers.

Even after adjusting for the potential positive selection of migrants, this still suggests that the gain to a low-skill worker from these 42 countries of moving across the US border is to increase wages by a factor of 4.26, for a gain of around P$13,000 per year.

Now, it is possible that even this gain is because people are sufficiently wedded to their own place, language, culture, family and social ties that these wage gains are not worth the other real and psychic costs of moving. Fortunately, to address this question we have a near "natural experiment" in that Puerto Rico has remained a territory of the United States and as such, its citizens have the right to live and work in the USA. So we can do exactly the same procedure for Puerto Rico and ask "what is the wage ratio for observably equivalent workers with spatially disintegrated, linguistically and culturally distinct places when there are no obstacles to labor movement?" Puerto Rico's wage ration is 1.5, which given the very long period for which labor movement has been free might be near a sustained equilibrium—that wages would have to be 50 percent higher to induce workers to move to a "foreign" country.

Of course, this is enormously higher than the observed ratios for other Central American and Caribbean countries. Dominican Republic has the lowest observed wage ratio, only 2, but most other Central American countries have ratios almost twice as high—Jamaica is 3.6, Guyana is 3.8—the median for Central American and Caribbean countries is 2.94, almost exactly twice the ratio for Puerto Rico. This suggests that the observed wage differentials are the result of the border controls, not because of any lack of interesting in taking advantage of the wage gains.

Not surprisingly, this evidence suggests that for labor movement the border matters, a lot. Even if we discount the estimates of wage differences of observably equivalent workers by a factor of 1.5 to adjust for selection and for costs of moving, the gains in wages to a low skilled worker are P$10,000.

Not only is the world not flat, it is not a curb, not a barrier, but a massive cliff at the US border (and, one suspects, similarly sized cliffs for most other rich countries). There are lots of other issues that are discussed in the context of "globalization and equity"—including the movement of capital, the effects of the liberalization of trade, creating anti-poverty programs in poor countries, the working conditions of "sweatshop" workers, etc. However from the top of the cliff of labor restrictions all of these are barely visible.

One way of making these comparisons is ask: how long we would have to let a worker work at their market wage in the USA (just meaning there is a voluntary employer willing to pay them based on their productivity) in order to be equal to the benefits from a *lifetime* of benefiting from other programs or interventions.

For instance, the provision of micro-credit had garnered enormous amounts of attention, with on the of pioneers in revivifying micro-credit, Muhmmad Yunus, winning a Nobel Peace Prize for his efforts. So, lets ask, how many weeks would a Bangaldeshi man have to work in the USA in order to produce a gain equal to a generous estimate of the gain in net present value of a *lifetime* of access to micro-credit. A pioneering (if controversial because it is higher than others) estimate by Pitt and Khandker (1998) of the net return on micro-loans to Bangladeshi women is 18%. Taking this substantial return at face value, this translates into an increase in annual household income of US$65 at purchasing power parity, so that a *lifetime* of continuous access to lending with these returns would return US$683 in net present value.[4]

From Table 1 above an observational equivalent low-skill Bangladeshi man makes P$14,891 more a year in the USA. To be conservative, scale this figure back by 1.5 to account for positive selection and psychic costs of moving. At that level he would have to work *four weeks* in the United States to have a gain in income equal to a lifetime of micro-credit[5]. Obviously one would have to add a few weeks to pay transport costs and some for expenditures while in the USA, but a single seasonal access of three months could provide savings more than equal to the total gain from a lifetime of micro-credit.

Table 2: A comparison of annual wage gains from international movement of the marginal worker, to present-value lifetime wage gains to the marginal worker from different *in situ* antipoverty interventions

Intervention	Country	Present-value lifetime wage increment due to intervention (US$ at PPP)	Annual wage increment due to working in US (US$ at PPP)	Weeks of US work equivalent to *lifetime* NPV of intervention
Microcredit	Bangladesh	700	~10,000	4
Anti-sweatshop activism	Indonesia	2,700	~12,000	30
Additional year of schooling (at zero cost)	Bolivia	2,250	~11,000	11
Deworming	Kenya	71	~11,500	0.3

Source: CMP (2008a).

[4] Their estimate of the return to males is 11%, but we use the higher figure for females to be conservative. Average annual female borrowing is Tk3415, or US$361 at PPP using the average PPP conversation factor from World Bank (2007) over the relevant period (1986-1992) of 9.47. The resulting increase in household income is thus Tk615 or US$65 at PPP. Average life expectancy in Bangladesh during 1986-1992 was 55 years and average borrower age in the sample is 23, and a 33-year stream of US$65 payments (including one at time 0) discounted at 10% has a net present value of US$683. At 5% the value is US$1091 and at 15% it is US$493.

[5] I am aware of all the problematic aspects of gender implied by income accruing to a man versus a woman, but the regressions were used for men since labor force participation is so much more complex an econometric issue for women.

We have done similar calculations for other (anti)-globalization or anti-poverty initiatives intended to address "equity." For instance, anti-sweatshop activism does appear to have led to wage gains for Indonesian workers, such that a low skilled Indonesia worker would have to work half a year in the USA to be equal to a lifetime of the gains from anti-sweatshop movement. Expanding schooling, a policy that spawns social movements, international resolutions, MDG commitments, and the like, does produce wage gains. To produce the equivalent of the gross *lifetime* gains from an additional year of school (not even taking out the opportunity cost) a Bolivian worker would have to work in the USA for 11 weeks.

One could multiply these examples, which all hinge on the same basic simple, but inexorable arithmetic: most gains from *in-situ* anti-poverty interventions are measured in *percents* of local income while the gains from labor mobility to the USA are measured in *factor multiples* so the annual gains from labor mobility are typically *two orders of magnitude* larger than even the most optimistic estimates of "development" actions.

This is not of course to pose these are alternatives, one could easily both expand micro-credit and reduce the barriers to labor mobility. The point is that, at the margin, the gains to poor people from relaxing existing barriers to labor mobility are enormous relative to everything else on the development table so doing one out of concern for "equity" of globalization and not advocate the other makes almost no sense[6].

This same logic also applies to the potential gains from further liberalization of the already quite liberalized markets for goods or capital.

[6] These calculations are even more dramatic if one factors in costs, as micro-credit or a year of schooling for instance cost real resources while expanding migration, by most estimates, has almost zero welfare cost (and in many instances, substantially positive gains) for the receiving country so it is at least potentially "win-win."

Caselli and Feyrer (2006) calculate the marginal product of capital (MPK) across countries. They find that marginal products of capital across countries are “essentially equalized.” In fact, by their estimates, which correct the “naïve” estimates of the marginal product of capital for differences in “natural capital” and in the price of output, the return to capital is *lower* in poor countries than rich countries (8.4% vs. 6.9%, from Table 2). If this research is to be believed the gains from facilitating capital flows to poor countries are modest. Since the marginal product of capital is so nearly equalized, their estimate of the welfare gains from *complete* equalization of the MPK across countries is only one tenth of one percent of world GDP—roughly $65 billion. Even if one went beyond liberalization and subsidized the flows of capital, the net gain, the difference between the financing cost and MPK limited by the low MPK.

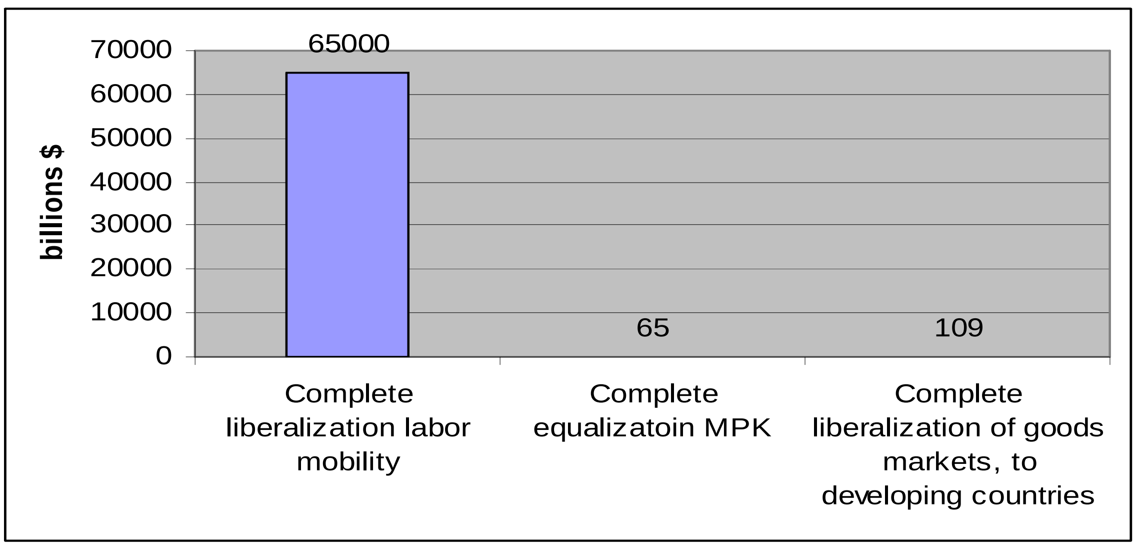
While borders may create substantial barriers to trade, the gains from *liberalization*, the reduction in trade barriers are, by now, quite modest. An estimate by the World Bank 2005, p. 128) is that an elimination of *all* remaining policy barriers to trade worldwide, would produce welfare gains to the developing countries of roughly $109 billion in annual income by 2015.

In contrast to these modest gains from further liberalizations of goods or capital markets the estimates of the gains from the fanciful counter-factual of a complete liberalization of labor mobility are that world GDP would roughly double[7] At current levels of GDP this implies gains of 65 *trillion* dollars, roughly *three* orders of magnitude larger than the world gains from MPK equalization or than the developing country gains from all remaining trade liberalization. Or, rather than even entertaining the borderline

[7] Hamilton and Whalley (1984) estimate was a rough doubling of world output per person. Klein and Ventura (2004) use a calibrated general equilibrium model with capital mobility and estimate gains between 94% and 172%.

facetious estimate of "open borders" one can calculate the gains from a modest relaxation of the constraints on labor flows. Walmsley and Winters (2005) (Table 4, col. V) usee a general equilibrium model to estimate that allowing an additional movement people equal to 3% of the existing OECD labor force—would raise the welfare of those moving by $170 billion.[8] Again, the logic is familiar, since welfare gains grow with the square of the deviation and goods existing price distortions are measured in percents and labor price distortions are measured in factor multiples, the gains from labor mobility just swamp everything else on the agenda. Figure 5 shows these gains from complete labor, goods, or capital liberality on the same scale, as, as you might suspect it is impossible to see the gains to further flattening from the spectacularly high cliff of 65 trillion.

Figure 5: The view of the flat land of goods and capital from the cliff against labor



Source: Hamilton and Whalley (1984) and Klein and Ventura (2004) for labor mobility, Caselli and Freyer (2006) for capital, World Bank (2005) for goods.

[8] Their simulations were based on rough assumptions about how much of the existing wage differences were due to productivity differences that would move with the worker (which they assume is only half) while our estimates per worker are based on data. They find a welfare gain to movers of roughly $20,000 per mover, which is close to our estimate for India of P$19,900 (though their estimates are not exclusively of low skill workers).

The world ran an interesting and unique historical experiment since World War II of dividing the world up into smaller and smaller geographic bits, endowing those bits with sovereignty over economic policies, and then promoting modest amounts of cross-border liberality in some transactions (certainly goods, certainly foreign exchange, less so for capital) but almost uniformly countries block the movement of labor[9]. Different simple theories of economic growth and/or international trade made different predictions for how that experiment would turn out, some predicting convergence in per capita incomes across countries, some predicting equalization of factor prices. We have now run with the experiment with the POSEBLL for around 60 years and we know the outcome: incomes have not converged (certainly not in absolute terms, certainly not in country weighted relative terms) and factor prices have not converged. We don't know what real "globalization" might have produced but POSEBLL has created a world in which there are massive differences in the earnings of equal intrinsic productivity workers across countries, differences that are sustained by enforcing restrictions on the movement of poor people.

III) The "Nation-State-ization" of Equity

One issue that is rarely raised in discussions of "globalization and equity" is what the concepts of "equity" or "fairness" or "justice" mean in a global or even cross-national context. While I am not well suited or trained to raise these issues, if not me, then who?

One of the hubs, if not temples, of globalization is the Singapore Airport. Nearly every experienced international traveler has passed through it. It is a marvel of

[9] What is unique is that most, if not all, countries blocked the influx of labor. While the movement of labor across "state" borders has always been complex, states in previous times were at least as concerned with losing labor (hence all kinds of arrangements from serfdom to slavery to peasantry) that bound people to the land to prevent losses of labor (especially in rural areas), but much less concern about cross-state mobility.

modernity, efficiency, a testament to non-Western wealth and prosperity, and a hive of globalization as business-people from every corner of the globe pass by. A few years back I was headed towards my next flight when I encountered a string of Bangladeshi men; all handcuffed and then chained together being escorted through the airport, presumably to be flown back to Bangladesh. Their apparent "crime" was an attempt to sell their labor services to willing buyers in Singapore. None of us streaming past paid the slightest attention to this perfectly natural, perfectly ordinary, course of events.

One fascinating aspect of the huge divergence in earnings across national borders is that it takes coercion to enforce those restrictions. This coercion, at least in the OECD, is carried out by agents under the near perfect control of democratic nation-states. There is overwhelming support for these restrictions, in nearly all public opinion surveys in OECD countries recently (even before the troubles in 2008) a majority of people believe that, even with the existing restrictions there is still "too much" migration. These restrictions raise almost no objections on the grounds of "justice" or "equity." This is apparently because of what I call the "nation-state-ilization" of justice claims.

I would argue a desire for equality often stems from an even deeper principle of equity, that "likes should be treated like likes." Even a very small child will object "that's not fair" if any favor is distributed unevenly if that uneven distribution appears to be arbitrary. However, what constitute "like" for purposes of justice claims, is, as they say, socially constructed, as what differences count as making people "unlike" is entirely a social convention.

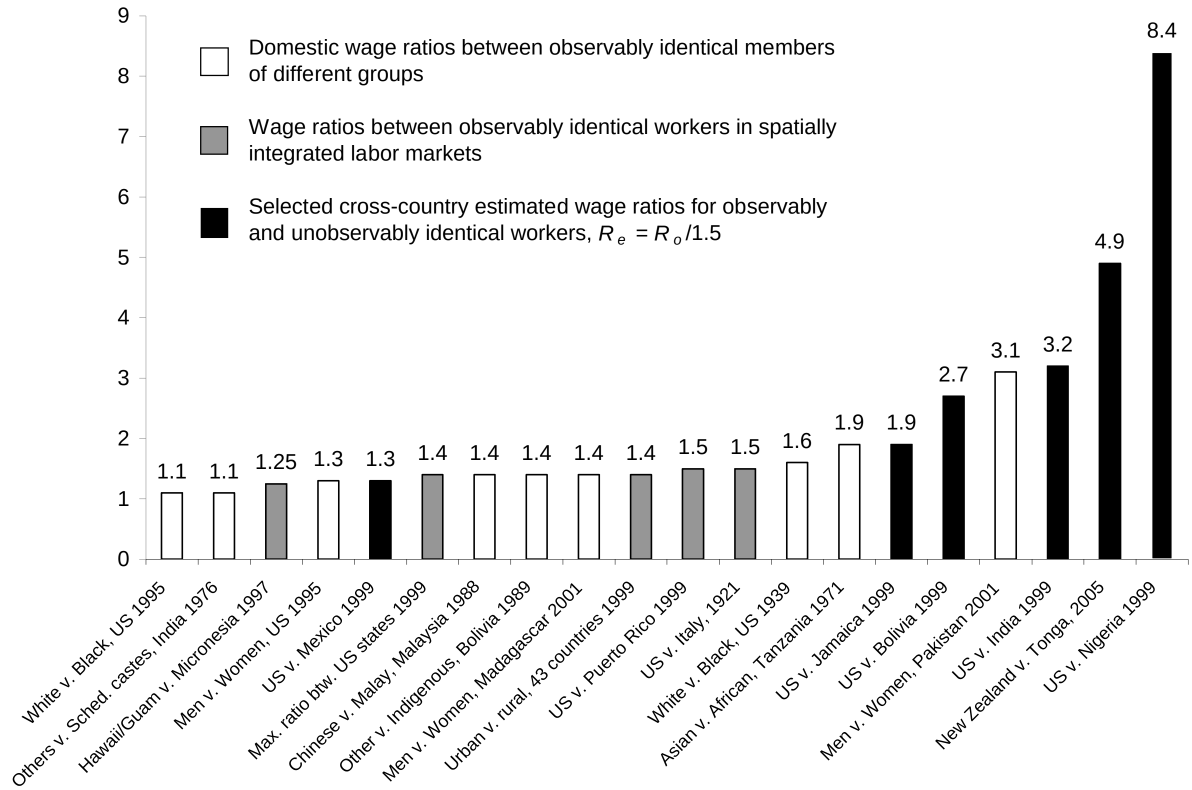
For instance, there is little that is more obvious about the world than that the biological sexes differ. Nearly every individual is immediately and easily recognized by all others as belonging to one or the other of the biological sexes. Yet, in most modern societies these obvious differences are now irrelevant for justice claims, the differences between the sexes have been redefined as irrelevant to justice claims, as social constructed notions were deconstructed and reconstructed. “Because you are a girl” is no longer considered a socially appropriate rationale for differential treatment.

On the other hand, people who are exactly identical in every conceivable and observable respect can be treated in ways that cause their well-being to differ by orders of magnitude—for instance denied access to a more productive job--with no apparent violation of justice if those otherwise identical individuals happen to be citizens of different countries. Two brothers both born to, say, Peruvian parents, if one is physically born in the USA and one not, have completely different lifetime claims on rights as this seemingly arbitrary condition of place of birth acquires makes them completely “unlike” for nationalized theories of justice.

Just as one illustration, we can use our multi-country wage data to ask the question of how apparent discrimination against women in wages in the labor market—just simple wage differences between otherwise observable men and women—compare with the wage gap between observably identical men (including remember same country of birth). Not surprisingly, the estimates are consistent with the existence of substantial labor market discrimination against women in nearly every country of the world. In the USA the estimate is a wage ratio (men to women of 1.3). Estimating the “male premium” for each of the countries gives a median of 1.4 (shown by the median country, Madagascar, in Figure 4). The worst observed “male premium” is, again not very surprisingly, in Pakistan, with a male premium of 3.1—makes making three times observably equivalent females. Of course these are very simple numbers just meant to be illustrative and are not corrected for labor market selection, nor do these reflect the many potential dimensions of sex discrimination beyond the labor market (e.g. violence against women, including domestic abuse, which is widespread in many countries, forced marriages, bias in health care, property ownership, etc.). But the simple point is that our very conservative estimate of the wage gap of equal productivity workers willing to move (taking observed wage ratios for observably identical workers and dividing by 1.5) exceeds the *median* male premium (1.4) in nearly every instance (only two countries are less than this amount), and 17 countries the "place premium" to access to the US labor market for low-skilled workers is greater than the *worst* discrimination observed in any country[10].

[10] These numbers are derived from a modestly difference technique and functional form than those in table 1 and hence are not completely comparable.

Figure 6: Comparing wage gaps across borders (estimates from table 1, scaled back by 1.5) to wage gaps within spatially-integrated labor markets



Source: CMP (2008a), Figure 4.

One can do similar comparisons with other forms of labor market discrimination. One study estimated the degree of wage discrimination against African-Americans in 1939—a time in America where discrimination was egregious, blatant, and pervasive. The estimate was that the wage ratio was 1.6, whites made 60 percent more than equivalent African Americans. This was a clear offense to any sense of justice, and many people fought long and courageously to address that, and current estimates suggest much lower degrees of outright wage discrimination. But, even the outrageous discrimination of 1.6 is exceeded again by all but two countries (Mexico’s estimate is 1.61). Estimates of labor market discrimination against disfavored ethnicities around the world, e.g. versus indigenous groups in Bolivia, often show persistent and large wage gaps—but never reaching the levels of the discrimination of the US border.

The question is, how does the massive differential treatment of people that are alike in every respect except for their affiliation with a particular nation-state, an essentially arbitrary condition of birth, square with any theory of justice? This is not to ask why there are not in fact open (or more liberal) policies with regard to labor mobility (or even deeper, the acquisition of citizenship), which is a historical and political question, but rather why it has come to be accepted that this differential treatment of "like" individuals is not a violation of fundamental principles of equity. Alternatively, what is the construction of a notion of "difference" in a theory of justice such that nearly all other conditions of birth—e.g. sex, race and non-biologically grounded socially transmitted ascriptive identities, such as ethnicity and religion—are absolutely unacceptable as criteria of difference, particularly for action by the state, but your location of birth (or parentage) is an acceptable basis for legally grounded and coercively enforced discrimination by states?

I will be the first to admit I am a puzzled amateur rather than a professional philosopher. To me the three primary theories of justice, when applied to this issue either imply open borders, or, in an effort to avoid this obvious conclusion, devolve into a mass of confusion or irrelevance.

One version of a popular class of theories of justice (contractarian) is that articulated by Rawls in his classic *Theory of Justice*. His basic argument has two parts, first, that a set of social arrangements should be considered just, if individuals behind a "veil of ignorance" and hence with no knowledge of the position they would subsequently occupy in that social arrangement, would have agreed to those social arrangements, and second, he makes arguments about what social conditions would in fact be agreed to in those circumstances. The seemingly obvious implication of that set-up is that open access to participation to any given set of social arrangements (conditional on fulfilling whatever obligations those arrangements entail) is a fundamental condition of justice, and hence open borders one corollary of that. Imagine, taking Rawls perhaps a bit more literally than he would prefer, we actually existed in some sense as entities capable of reasoning before birth, say, raw "intelligences." In the pre-birth conference of intelligences would I ever agree that you would be born in Denmark or France or the USA and I would be born in Mali or Nepal or Bolivia and that it would be just for you to arrange for coercion to prevent me from working in the territory controlled by your social arrangement, even for a willing employer? Hard to see why I would. Philosophers such as Joseph Carens argue that Rawls approach does imply open borders.

Rawls own means of avoiding this consequence of his approach (which may be seen as a defect as some might regard any theory of justice that implied open borders as flawed as it would imply to modern nation-state was just) was simply to stipulate the nation-state as a primary and primordial entity and claim his theory only applied to social arrangements up to the nation-state and no larger. This is a radical reduction of the scope of his theory, as it means to have any general *human* or *universal* theory of justice as we must have one theory, Rawls' say, for relationships within a nation-state (a potentially arbitrarily formed category) and another theory, which cannot be Rawlsian but is otherwise unspecified, to answer questions about the "just" relationships between individuals across nation-states and perhaps a third for behavior of nation-states as actors.

For instance, are there any conditions for determining new members of a nation-state that are unjust? For instance, could a nation-state deny a person admission as a citizen on precisely the same criteria (e.g. gender, religion) for which discrimination against national is unjust? This seems like a mass of confusion to avoid a simple, plausible, universal, "veil of ignorance" contractarian theory and its obvious consequence.

The philosopher Robert Nozick proposed a comprehensive alternative view of justice as "process fairness"—that people own the fruits of their labor and are entitled to make voluntary transactions and that any outcome that results such a process is fair, not matter how unequal. This theory as well leads quickly to the conclusion that it would be unjust to bar voluntary transactions across individuals on the basis on some justice-arbitrary condition like their place of birth. The only alternative is to again introduce the nation-state as an unanalyzed primordial with an ability to regulate or ban transactions between citizens of nation-states it would be unjust to bar for citizens of the same nation-state.

A third alternative class of theories of justice are more "communitarian" and build notions of justice up from sustained free dialogue among the participants of a community. These theories, while having attractions, seem especially problematic as the conditions under which individuals can join communities and the ability of communities to regulate membership seem particularly intractable. If justice is only community based then is there any injustice to a "community" denying new members based on, say, their race? If so, then there must be some other theory of justice that transcends the community, a broader community notion of justice. The problem with this sequence is that there is no reason why this process of envisioning broader communities would just happen to stop at the (imagined) “community” called the “nation-state” which could then deny any and all others membership without any justice claim. There are some, perhaps many, things that all human beings have in common, which would seem to imply some set of universal set of justice obligations and a common notion of “equity” such that, while “communities” may have distinct notions of justice, there are at least some cross-community constraints on the range of acceptable cross-community actions consistent with fairness, equity, or justice.

Of course the alternative to these views is the widespread view, of which Foucault is the most popular well-spring, that, very crudely put, discourse is structured by power and that what discussions that pretend to “rational” discourse about all topics, including justice, are the cloaked attempt of power to control discourse to construct a social reality conducive to its aims. The alternative to this discourse is “deconstruction”, the unmasking the relations of power behind discourse so that alternate realities may emerge. However, this post-modern “deconstruction” is unlike most previous deconstructions in that it has given up any illusions of displacing the “false” with the “truth”—there is not solid, much less, transcendent (in the sense of “God” or “Reason” or “History”) basis for “truth” or “justice” it is just discourse and convention all the way down. Hence post-modern analysis is not an alternative theory of justice, but rather a theory of justice-claims.

Taking Foucault seriously then one should look for power not in controversy but in silences. After all, controversy reveals fissures in power, and signifies either a topic beyond the real concern of power, an erosion of power, and/or conflicting powers in which neither is able to subjugate the other. In issues around which there is overwhelming power there is no legitimate controversy, only silence, because discourse beyond the specified boundaries is not “controversy” but “craziness.” This seems like a good description of the current status of justice discussions about cross-border movement of people. The claim that “closed borders are unjust” isn’t controversial, it is just plain crazy.

This lack of a widely acceptable notion of cross nation-state border equity leads the discussion of the movement of people into twists and knots, let me illustrate three.

First, I wrote part of this while in Kuwait. Kuwait has a massive population of non-Kuwaitis, most of whom are explicitly temporary workers and most of whom are not and are not on a path to achieve any long-term claims on citizenship in Kuwait. Kuwaitis and the government of Kuwait seem perfectly comfortable with co-residence on unequal citizenship status. One can articulate a view, based on Nozick view, that this is a just arrangement: “We make an offer of the conditions under which people may be granted access to the Kuwait labor market (including their limits on rights, not being able to bring families, less than due process for expulsion, etc.) and if people accept that offer then by revealed preference they are better off, so by process fairness the resulting outcome is just (or at least no less just than the situation before we made the offer and that initial injustice is not our problem).” Many people are uncomfortable with this view, as they argue that it will lead to a “race to the bottom” or a “coarsening” of a sense of justice such that *within* national inequality will grow or Kuwait will be unable to sustain social programs. For instance, Milton Friedman himself proclaimed that the welfare state and open migration are incompatible. As a general proposition this is obviously refuted by Kuwait (and other Gulf States and Singapore) all of which, for their citizens, have an amazing cradle to grave set of social welfare programs, often even beyond most European states. What Milton Friedman meant was that social welfare states and open migration are incompatible *if* migrants acquire immediate and full claims on these benefits. The conundrum is that the Kuwaitis lack of a sense that co-residence creates justice claims leads them to accept a far higher number of workers than they would if each acquired citizenship (which of course implies a claim on the revenues from oil). The lack of a coherent theory of cross-border equity means there is not coherent view about whether allowing temporary workers is more or less just than banning them altogether.

A second conundrum is that the conventional wisdom is that a theory of universal human rights does involve allowing certain kinds of petitions—like "refugee" or "asylum" but a nation-state having no justice obligation whatsoever with regard to "economically" motivated migration. Suppose, an asylum petitioner could prove that their odds of dying if they were forced to return to their country were one in five within five years. This is a fantastically high fatality rate—for comparison the fatality rate of the US Army in World War II was 2.8 percent, the British Army 5.2 percent. Almost if a one in five fatality risk was demonstrated in asylum hearings their petition would be granted. In the poorest countries of the world the Under Five Mortality rate is around 200 per thousand—one in five. So returning a Malian woman or Somali or Liberian woman who desires to remain on mere "economic" grounds creates this incredibly high mortality risk for all of their future children. Why isn't every Southern Sudanese or Somali or Malawian or Nepalese a candidate for asylum, not from political prosecution but from the very real dangers of poverty?

A third ethical problem is that ambivalence of Americans about the justice of our current situation. Many, if not most, Americans do not want open borders but feel little or no ethical compunctions about violating the current immigration laws by employing undocumented workers. The most recent, spectacularly illustrative example is the recent arrest (December 2008) in the Boston area of the top local official of Customs and Border Patrol for not just hiring an illegal worker, but actively aiding this person in evading the law[11]. This deep ambivalence I would argue stems from the conflict between the vague sense it is just to enforce borders competing with the similar vague sense it is not unethical to give another person work.

All in all, I find myself confused and out of touch in discussions about "globalization" and "equity" as I do believe in God but don't believe in Sudan, whereas everyone around me seems to have the opposite view. As Benedict Anderson so cogently pointed out in *Imagined Communities* nationalism is the last acceptable credo and the "imagined communities" of nationalism have swept the floor with not just kith and clan but God and Class. The puzzle is not that people believe in *states*, these are an obvious juridical category, the puzzle is that people believe in *nations* and hence *nationality* as a *social* category on which discrimination is possible without any justice claims. Yet *social* realities of the "Congo" or "Indonesia" or even "India" are "communities" or "nations" that, like Yugoslavia or Sudan, exist only in the most fevered of imaginations. For me, I'll take Pascal's wager and stick a while longer to the old fashioned notion that all men and women are brothers and that a theory of justice should be universal, not contingent on place of birth or physical proximity or "nationality."

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[11] Ironically, as I arrived in February of 2009 her picture still greets you as I cleared Customs.

Conclusion

My addition, or perhaps subtraction, to a discussion about "globalization and equity" is to triply deny the premise.

First, for most poor countries "globalization" is a much less primary phenomenon than sovereignty, and even the most aggressively liberalizing countries have yet to overcome the dis-integration consequences of sovereignty.

Second, the range of "equity" issues usually discussed in this context are all dwarfed, by *order of magnitude*, by the wage gaps across equally productive workers created by the enforcement of US (and other rich country) borders. Given that the typical low skill worker could triple his/(her) wages by moving to the USA (or other rich countries) discussing the inequity of cotton subsidies or "fair trade" or inadequate foreign aid, or the efficacy of anti-poverty interventions leaves one wondering, "why this and not that?"

Third, I cannot see there is any coherent way for discussing "equity" (or fairness or justice) in the context of globalization that doesn't seem to boil down to an unsupported claim about the primacy of nation-states as a legitimate ethical category. To me this seems more like a "*…tradition of all dead generations [that] weighs like a nightmare on the brains of the living*" from which I suspect we may one day awake.