CHAPTER 11
The Cliff at the Border

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I begin with John Maynard Keynes's 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. I divide his passage from *The Economic Consequences of the Peace* (1919) into four sections:

> What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into 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.

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What better description could there be of the benefits to the sovereign consumer of the liberalization of goods (note he is already aware of the role of income inequality in this liberalization—these goods are available to the "middle and upper classes"). This description is even truer today, because technical advances have put even more "conveniences, comforts, and amenities"—such as air travel, cell phones, medical care, air-conditioning—on offer, and globalization of the trade in goods has augmented this plenitude, leading to goods of amazing variety (such as foods from every corner of the earth), availability (such as 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. Keynes continues:

> 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 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, here is a wonderful description of the glories of the liberalization of capital—interestingly both equity and debt, and with more extensive bond markets than even exist today (the "townspeople" of the 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 [one's] wealth" into index funds of Indian stocks or Brazilian bonds. As for travel:

> 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." Note also the sensitivity (or lack thereof?) to the interpersonal distribution of income and to whom 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 of the first globalization has not been re-created today, in two senses. Even for the elite of the world there is no 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 important, at least within certain areas in the first globalization there had 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. The citizens of Great Britain could move to British colonies and could engage in more complex flows (e.g., some voluntary, some restricted, some forced) elsewhere within the British Empire as well (e.g., the movement of Indians to Africa and the Caribbean). This general free movement of unskilled labor has not been at all restored.

These three passages from Keynes 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. The end of this first globalization was followed by some quite nasty bits of history, with two extremely bloody "world" wars, the rise of Leninism/Stalinism in Russia—with its brutality and famines and staggering loss of life orchestrated by the state—and the rise of fascism in Europe—with the attempted genocide of Jews and, again, 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 after World War II by establishing institutions to re-create the globalization that had created the previous "extraordinary episode in the economic progress of man" and to avoid calamities. In this, the world has been fantastically successful in re-creating two of the three liberalities. But in the 30 years between 1914 and 1944 (the Bretton Woods conference) apparently all appetite disappeared for the third element of the first great globalization. There was no attempt to re-create the globalization of labor markets, no creation of institutions to encourage and manage that process, no equivalent of the World Trade Organization (WTO) or International Monetary Fund (IMF) for the movement of people.[2] This failure, combined with the movement for decolonization after 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 acronym is sufficiently ugly that I must alert the reader about 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 equalization of the prices of goods and 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 the 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

2 In fact, an International Organization for Migration was set up (and still exists), but the objective of that group was to facilitate the return of refugees rather than to assume the broader policy agendas of the institutions intended at Bretton Woods (only after more than 50 years did the WTO acquire independent organizational status).

> 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 that preceded it) is that "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 the free movement of Londoners with the wherewithal to have servants). Moreover, Keynes argued, people regarded this situation as "certain" and "permanent." The logic of internationalization was such obvious common sense that it was impossible to conceive of 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.

Because I have begun with quotes from Keynes, let me now turn to his great predecessor Karl Marx, who wrote in *The Eighteenth Brumaire of Louis Bonaparte:*

> 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 facts" 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 they live in an age of globalization when they so obviously do not live in a world of globalization. They live in an age of *nationalization,* a nationalization that is deep, radical, and unprecedented in the long history of mankind.[3] After all, their *first* encounter in *every* country they 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 this supposedly "globalized" world people think about "equity" in completely *nationalized* ways. This *nationalization* of the lived reality is so deep and so complete that lists of issues of "equity" and "justice" in a globalized world will include the following: (1) the differentials between Guatemalan men

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, but that 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"—the combination of statehood and an ideology of the "nation" into "nation-states."

and Guatemalan women raised as an example of gender inequity; (2) the treatment of indigenous Guatemalans versus other Guatemalans raised as an example of ethnic inequity; (3) the issue of the gap between the landed and landless raised as an example of persistent economic inequity; (4) the reduction in trade barriers causing an increase in inequality across people of different skills raised as an example of the inequities induced by "globalization"; (5) the issue of education gaps between rich and poor within Guatemala presented as examples of perpetuation of poverty/inequality across generations; and (6) the issue of value chains in coffee sold by Guatemalan farmers adduced as inequities in globalization. One can get very far into lists of "equity" and "justice" problems around which people are willing to mobilize before the gap in wages induced by U.S. 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 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 developing countries, "globalization" is a primary phenomenon of this time. Second, I argue that all of the issues discussed in the context of "globalization and equity" around "everything but labor liberalization" are trivial compared with the one that is not discussed—cross-border flows of labor. Third, I argue that economists 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.

The Proliferation of Sovereigns

I was born in Idaho, a state in the upper Northwest primarily famous for its potatoes and, at least for a while, for its 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, passport—all 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 49 states. Now suppose time goes on and 10 years later, in 2019, Idaho "liberalizes" its trade by reducing its tariff to 10 percent. One could easily find the impact of this policy shift of some interest. But any academic who suggested that the "integration" of Idaho into the U.S. economy was the primary question of interest because of this modest liberalization of cross-border flows would be laughed out of the room. Obviously, the key question of interest would be the *disintegration* of Idaho from the rest of the United States, not the subsequent liberalization.

A central feature of the post–World War II period is the incredible proliferation of sovereign states; the number of nation-states has risen from about 50 to about 200. As illustrated in figure 11.1, this proliferation happened in roughly three waves: (1) one group immediately after World War II (including, importantly, Indonesia and India and Pakistan); (2) a group of primarily African countries gaining independence around the early 1960s (with another group of the once Portuguese colonies gaining independence in 1974 and 1975); and (3) the proliferation from the disintegration of the Soviet Union and some of its satellites (e.g., Czechoslovakia and Yugoslavia). So, although all of the major industrial countries have been sovereign states for 100 years or more, most poorer countries (the obvious regional exception is Latin America) were in some kind of colonial or quasi-colonial relationship that limited sovereignty over policies until relatively recently.

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. Those reasons included revenue needs from tariff collections and export taxes in the absence of other revenue 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 that it would not be able to service its debt, there has been a cumulative, gradual, but by now nearly complete shift toward dismantling the more egregious barriers and a general liberalization of trade.

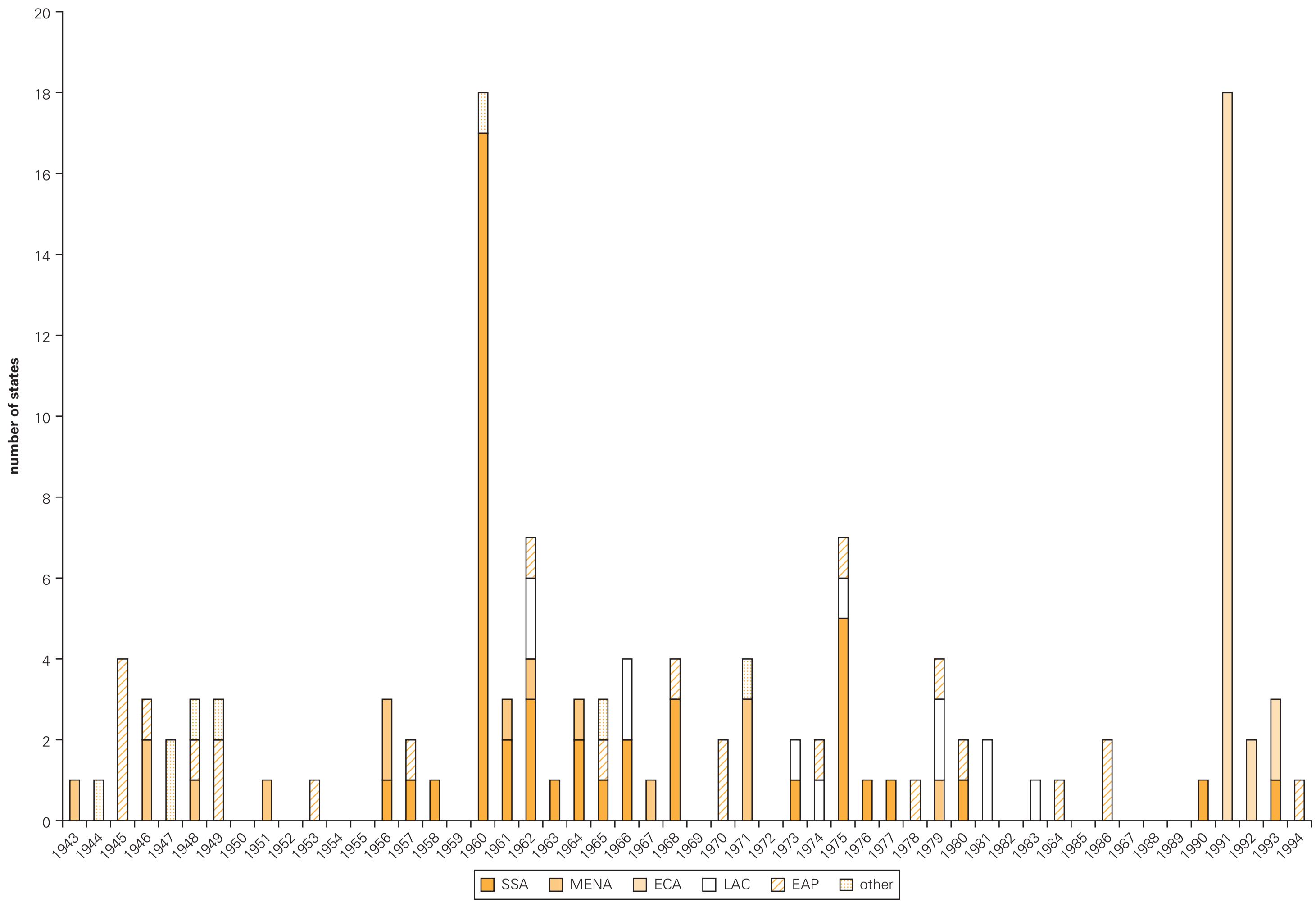
However, very few countries have gone beyond liberalization of the cross-border trade in goods (which has included regional customs unions and "free trade" areas) and the relaxation of control on some types of capital flows to engage in any really significant "deep integration" (e.g., common currencies, free movement of labor, or 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, the North American Free Trade Agreement (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 the 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 U.S. state. The pioneering paper by McCallum (1995) reported that annual trade between British Columbia and Ontario was $1.4 billion[4] and trade with Texas was only $155 million, but could be predicted at $2.1 billion if Texas were treated as a province of Canada and thus there was zero border effect (see figure 11.2). 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, different courts, and so forth—by the

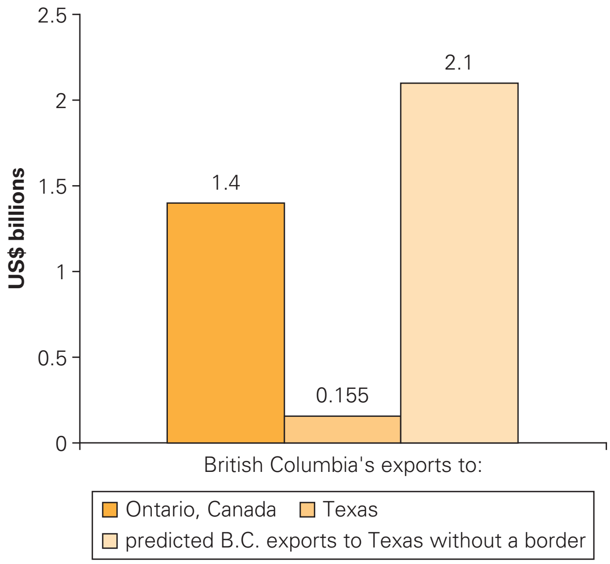
4 All dollar amounts are in U.S. dollars unless otherwise indicated.

Figure 11.1. New States Added Each Year, by Region, 1943–94



Source: Braun, Hausmann, and Pritchett 2004.
Note: SSA = Sub-Saharan Africa; ECA = Europe and Central Asia; EAP = East Asia and Pacific; MENA = Middle East and North Africa; LAC = Latin America and Caribbean.

Figure 11.2. Differences in Trade Flows between British Columbia and Ontario and Texas



Source: McCallum 1995.

proliferation of sovereigns may have been only mildly mitigated by the liberalizations to date.

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

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 caused by restrictions on the movement of labor, nor should they lead to pressures for labor movement if the differences stem from the intrinsic productivity of the worker. After all, some basketball players make millions of dollars, and yet this in and of itself is not evidence that there are "barriers" to my employment as a professional basketball player other than the fact that, being both short and slow, I would have low productivity in that occupation. But clearly some restrictions are intended to restrict the mobility of persons across nation-state borders—for example, every airplane arriving in the United States 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 United States could pay them a wage that reflected their productivity in the United States? Or, more prosaically, how high is the cliff that blocks labor at U.S. borders?

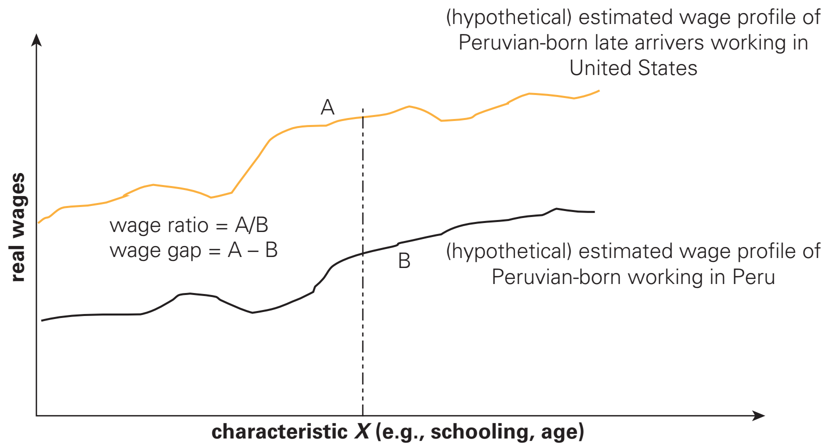
A study that my colleagues Michael Clemens and Claudio Montenegro and I recently completed answers this question precisely (Clemens, Montenegro, and Pritchett 2009). We took advantage of two sources of data. The first was a collection of data sets from around the world that recorded wages of individuals 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 U.S. Census. It collects information on wages and the characteristics of individuals such as years of schooling and age. Most important, it also collects information on a person's country of birth and when he or she arrived in the United States.

Let me use Peru to illustrate how these two sources of data can be used. I can compare the predicted real consumption (purchasing power parity [PPP]-adjusted) wages of a Peruvian-born, Peruvian-educated 35-year-old male who has nine years of schooling, lives in an urban area, and works in Peru, with the observable equivalent person—a Peruvian-born, Peruvian-educated 35-year-old male who has nine years of schooling (he arrived after age 25 so his education was Peruvian), lives in an urban area, and works in the United States. Figure 11.3 illustrates that this comparison involves estimating a wage profile for Peruvians working in Peru, the relationship between wages and characteristics (illustrated for just one characteristic, *X*, but in reality it is a multidimensional surface) in Peru, and a wage profile for late-arriving Peruvians in the United States. 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 United States and Peru. The figure is drawn with squiggly lines to emphasize that the empirical procedure imposes almost no assumptions on the shapes and forms of the two profiles (e.g., we do not impose that the wage returns to schooling are the same in the two countries nor the usual Mincer functional form in either).

The data allowed me to estimate the wage ratios of observably equivalent workers in the United States and 42 developing countries (see table 11.1 for the results). The apparently same worker from these countries makes *five times* as much in the United States as in his home country—that is, on average an annual wage income that is $15,000 (PPP) higher.

Of course, correcting the wages for a few simple observable characteristics may not fully adjust for equal productivity so that it is clear that the gains in table 11.1 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 wage gains from

Figure 11.3. Wage Profiles to Estimate the Wage Gap



Source: Clemens, Montenegro, and Pritchett 2009.

Table 11.1. Wages of Observably Equivalent Workers across U.S. Border for 42 Countries, Comparing Low-Skill, 35-Year-Old Males
U.S. dollars

Country	Annualized wage difference	Ratio	Comparing wages of workers with college degrees at home to workers with primary schooling working in United States
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, R.B. de	$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

Table 11.1. Continued

Country	Annualized wage difference	Ratio	Comparing wages of workers with college degrees at home to workers with primary schooling working in United States
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

Source: Clemens, Montenegro, and Pritchett 2009.
Note: "Low-skill" means nine years of schooling.

migration, because those who moved would have been more productive had they remained at home than those who remained 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 observably equivalent individuals. In my study with Clemens and Montenegro (2009) 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 there is some evidence of positive selection. Indeed, if one wanted to be conservative about the adjustment one could divide the ratios of the wages of "observably identical" workers by a factor of about 1.2 (the range is from 1.0 to 1.4) to determine "equal productivity" workers.

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

Now, it is possible that people are sufficiently wedded to their own place, language, culture, family, and social ties that even this wage gain is not worth the other real and psychological costs of moving. Fortunately, a near "natural experiment" in Puerto Rico addresses this question. Puerto Rico has remained a territory of the United States, where its citizens have the right to live and work. So one can subject Puerto Rico to exactly the same procedure 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 ratio of equivalent workers is 1.5, which, in view of the very long period during which the movement of labor has been free, might be near a sustained equilibrium—that is, wages would have to be 50 percent higher to induce workers to move to a "foreign" country.

Of course, this ratio is enormously higher than those observed for other Central American and Caribbean countries. Dominican Republic has the lowest observed wage ratio, only 1.99, but most other Central American countries have ratios almost twice as high—Jamaica's is 3.6, and Guyana's is 3.8. The median for Central American and Caribbean countries is 2.94, almost exactly twice the ratio for Puerto Rico. This variation suggests that the observed wage differentials are the result of the border controls, not any lack of interest in taking advantage of the wage gains.

Not surprising, this evidence suggests that for labor movement the border matters, a lot. Even if the estimates of wage differences of observably equivalent workers are discounted by a factor of 1.5 to adjust for selection and the costs of moving, the gains in wages to a low-skill worker are $10,000 (PPP).

Not only is the world not flat, it is not a curb nor a barrier. Rather, the world has a massive cliff at the U.S. border (and, one suspects, most other rich industrial countries have similarly sized cliffs). Lots of other issues are discussed in the context of "globalization and equity," including the movement of capital, the effects of the liberalization of trade, the creation of antipoverty programs in poor countries, and the working conditions of "sweatshop" workers. However, from the top of the cliff of labor restrictions all of these issues are barely visible.

One way of making these comparisons is to ask: how long would a worker have to work at his market wage in the United States (meaning an employer is willing to pay him based on his productivity) in order to equal the benefits from a *lifetime* of other programs or interventions? For example, the provision of microcredit had garnered an enormous amount of attention, with one of the pioneers in revivifying microcredit, Muhmmad Yunus, winning a Nobel Peace Prize for his efforts. So how many weeks would a Bangladeshi man have to work in the United States in order to produce a gain equal to a generous estimate of the gain in net present value of a *lifetime* of access to microcredit? A pioneering (if controversial because it is higher than others) estimate by Pitt and Khandker (1998) of the net return on microloans to Bangladeshi women is 18 percent. Taken at face value, this substantial return translates into an increase in annual household income of $65 at purchasing power parity, so that a *lifetime* of continuous access to lending with these returns would return $683 in net present value.[5]

Table 11.1 reveals that an observational equivalent low-skill Bangladeshi male makes $14,891 (PPP) more a year in the United States. To be conservative, one must scale this figure back by 1.5 to account for positive selection and the psychological 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 microcredit (see table 11.2).[6] Obviously, one would have to add a few weeks to pay transportation costs and some for expenditures while in the United States, but a single seasonal access of three months to a job in the United States could provide savings more than equal to the total *lifetime* financial gain from microcredit.

My colleagues and I have done similar calculations for other (anti-)globalization or antipoverty initiatives intended to address "equity" (Clemens, Montenegro, and Pritchett 2008). For example, antisweatshop activism does appear to have led to wage gains for Indonesian workers, so that a low-skill Indonesian worker would have to work half a year in the United States to equal a lifetime of gains from the antisweatshop movement. Expanding schooling, a policy that spawns social movements, international resolutions, Millennium Development Goal commitments, and the like do produce wage gains. To produce the equivalent of the gross *lifetime* gains from an additional year of school (not even netting out the opportunity cost), a Bolivian worker would have to work in the United States for 11 weeks.

One could multiply these examples, which all hinge on the same basic simple but inexorable arithmetic: most gains from *in situ* antipoverty interventions are measured in *percents* of local income, while the gains from

5 Pitt and Khandker (1998) estimate the return to males at 11 percent, but I use the higher figure for females to be conservative. Average annual female borrowing is Tk 3,415, or $361 at PPP using the average PPP conversation factor from the World Bank (2007) over the relevant period (1986–92) of 9.47. The resulting increase in household income is thus Tk 615 or $65 at PPP. Average life expectancy in Bangladesh during 1986–92 was 55 years, and average borrower age in the sample is 23. A 33-year stream of $65 payments (including one at time 0) discounted at 10 percent has a net present value of $683. At 5 percent the value is $1,091, and at 15 percent it is $493.

6 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, because labor force participation is so much more complex an econometric issue for women.

Table 11.2. Comparison of Annual Wage Gains from International Movement of Marginal Workers with Present-Value Lifetime Wage Gains to Marginal Workers 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 United States (US$ at PPP)	Weeks of U.S. work equivalent to *lifetime* NPV of intervention
Microcredit	Bangladesh	700	~10,000	4
Antisweatshop 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: Clemens, Montenegro, and Pritchett 2008.
Note: NPV = net present value.

labor mobility to the United States are measured in *factor multiples*. Thus 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 as alternatives; one could easily both expand microcredit and reduce the barriers to labor mobility. The point is that, at the margin, the gains to poor people from relaxing the existing barriers to labor mobility are enormous relative to everything else on the development table. Therefore, doing one out of concern for the "equity" of globalization and not advocate the other makes almost no sense.[7]

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

Caselli and Feyrer (2007) find that the marginal product of capital (MPK) across countries is "essentially equalized." In fact, by their estimates, which correct the "naïve" estimates of MPK for differences in "natural capital" and in the price of output, the return to capital is *lower* in poor countries than in rich countries (8.4 percent versus 6.9 percent, from their table 2). If this research is to be believed, the gains from facilitating capital flows to poor countries are very modest indeed. Because the MPK is so nearly equalized, their estimate of the welfare gains from *complete* equalization of the MPK across countries is only one-tenth of 1 percent of the world's gross domestic product (GDP)—roughly $65 billion. Even if one went beyond liberalization and subsidized the flows of capital to poor countries, the net gain, the difference between the financing cost and MPK, is limited by the low MPK.

Although borders may create substantial barriers to trade, the gains from *liberalization*, the reduction in trade barriers, are by now quite modest. The World Bank (2005, 128) estimates that 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.

7 These calculations are even more dramatic if one factors in costs. Microcredit or a year of schooling, for example, costs real resources, whereas expanding migration, by most estimates, has almost zero welfare cost (and. in many instances, substantially positive gains) for the receiving country. Thus it is, at least potentially, a "win-win."

In contrast to these modest gains from further liberalization of goods or capital markets, estimates of the gains from the fanciful counterfactual of a complete liberalization of labor mobility are that the world GDP would roughly double.[8] At current levels of GDP, this implies gains of $65 *trillion*, roughly *three* orders of magnitude larger than the world gains from MPK equalization or than the developing country gains from all remaining trade liberalization. Another possibility is that rather than even entertaining the borderline 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) use a general equilibrium model to estimate that allowing an additional movement of people equal to 3 percent of the existing labor force of the member countries of the Organisation for Economic Co-operation and Development (OECD) would raise the welfare of those moving by $170 billion.[9] Again, the logic is familiar; because welfare gains grow with the square of the deviation and the existing price distortions of goods 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 11.4 shows these gains from complete labor, goods, or capital liberality on the same scale, and, as one might suspect, it is impossible to see the gains to further flattening from the spectacularly high cliff of $65 trillion.

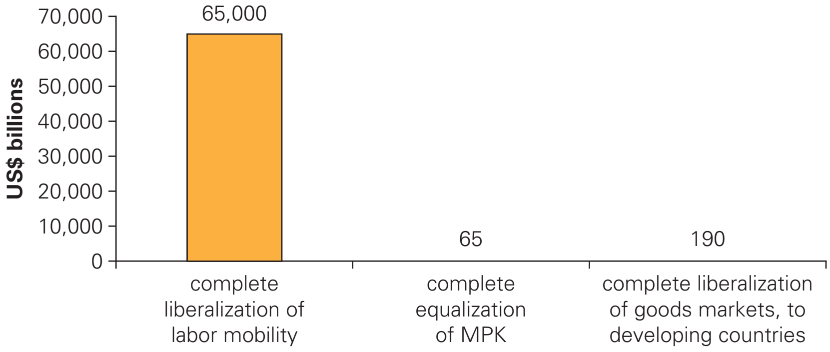
The world has run an interesting and unique historical experiment since World War II of dividing itself into smaller and smaller geographic bits, endowing those bits with sovereignty over economic policies, and then promoting modest amounts of cross-border liberality in some transactions (certainly goods, certainly foreign exchange, less so capital), but almost uniformly countries have blocked the movement of labor.[10] Different simple theories of economic growth and international trade made different predictions on how that experiment would turn out, some predicting convergence in per capita incomes across countries, some predicting equalization of factor prices. The experiment with the POSEBLL has now run for about 60 years and the outcome is clear: incomes have not converged (certainly not in absolute terms, certainly not in country-weighted relative terms) and factor prices have not converged. It is not known what real "globalization" might have produced, but the POSEBLL has created a world

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

9 The simulations by Walmsley and Winters (2005) are based on rough assumptions about how much of the existing wage differences are attributable to productivity differences that would move with the worker (which they assume is only half), whereas my estimates per worker are based on data. They find a welfare gain to movers of roughly $20,000 per mover, which is close to my estimate for India of $19,900 (PPP), although their estimates are not exclusively of low-skill workers.

10 What is unique is that most, if not all, countries have blocked the influx of labor. Although the movement of labor across "state" borders has always been complex, states in earlier times were at least as concerned about losing labor, and thus they adopted 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). They were much less concerned about cross-state mobility.

Figure 11.4. View of the Flatland of Goods and Capital from the Cliff against Labor



Sources: Hamilton and Whalley (1984) and Klein and Ventura (2004) for labor mobility, Caselli and Freyer (2007) for capital, World Bank (2005) for goods.

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.

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. Although 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 Changi International Airport. Nearly every experienced international traveler has passed through this marvel of modernity and efficiency, a testament to non-Western wealth and prosperity, and a hive of globalization as businesspeople from every corner of the globe pass by. A few years ago I was headed toward my next flight when I encountered a string of Bangladeshi men, all handcuffed and chained together. They were 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 coercion is needed to enforce those restrictions. This coercion, at least in the OECD countries, is carried out by agents under the near perfect control of democratic nation-states. The support for these restrictions is overwhelming. In nearly all public opinion surveys in OECD countries recently (even before the economic 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," apparently because of what I call the "nation-state-ization" of justice claims.

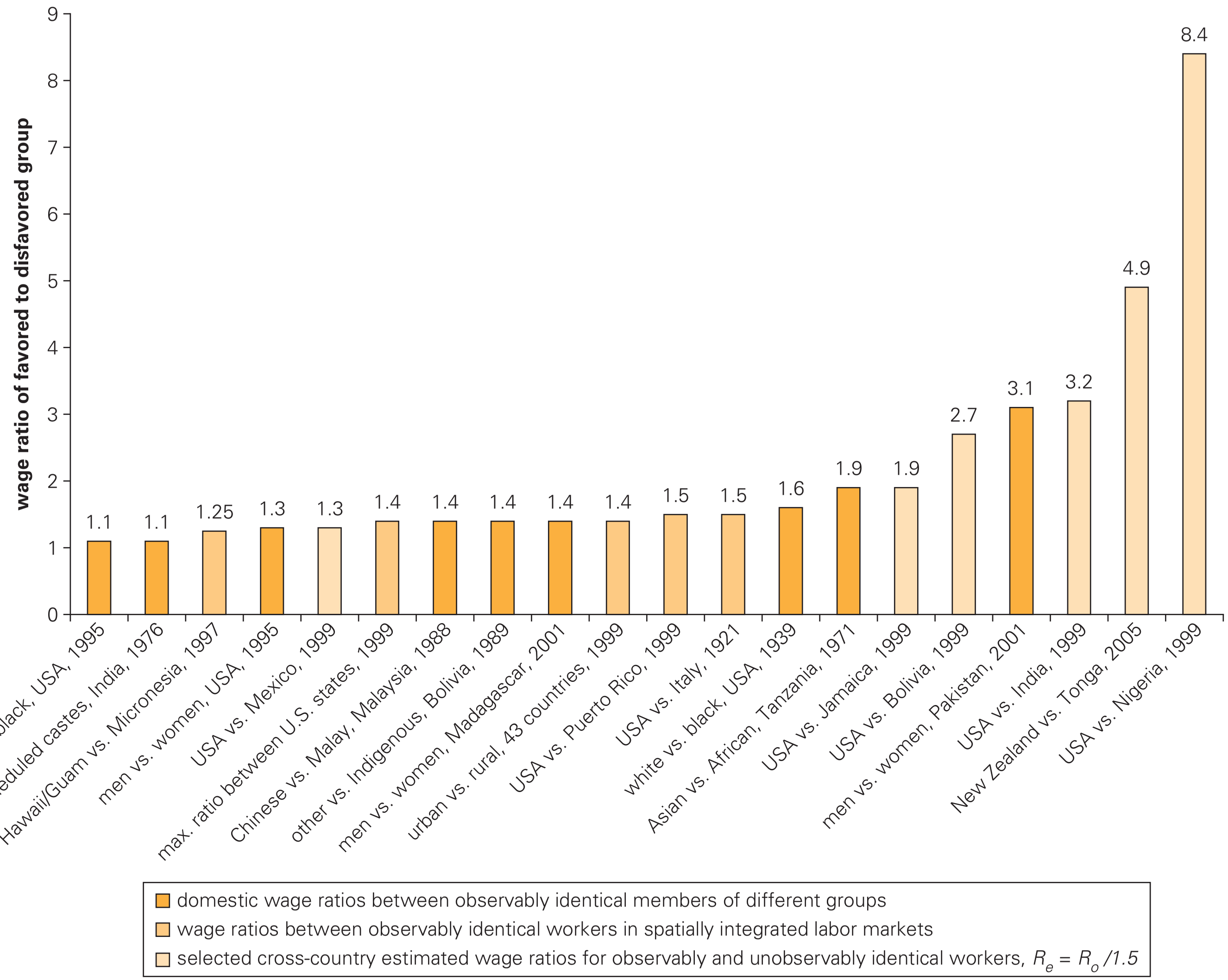
I would argue that a desire for equality often stems from an even deeper principle of equity that "likes should be treated like likes." Even a very small child will object— "That's not fair!"—if any favor is distributed unevenly if that uneven distribution appears to be arbitrary. However, what constitutes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

For example, 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 between the sexes have been redefined as irrelevant to justice claims as the socially constructed notions have been deconstructed and reconstructed. "Because you are a girl" is no longer considered a socially appropriate rationale for differential treatment.

By contrast, 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 example, one is 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, one physically born in the United States and one not, have completely different lifetime claims on rights because this seemingly arbitrary condition of place of birth makes them completely "unlike" for nationalized theories of justice.

Just as one illustration, I can use the multicountry wage data to ask how apparent discrimination against women in wages in the labor market—just simple wage differences between otherwise observable men and women—compares with the wage gap between observably identical men (including same country of birth). Not surprising, the estimates are consistent with the existence of substantial labor market discrimination against women in nearly every country of the world. In the United States, 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 11.5). The worst observed "male premium" is, again not very surprising, in Pakistan, at 3.1—that is, males make three times more than observably equivalent females. Of course, these very simple numbers are meant to be illustrative and are not corrected for labor market selection, nor do they 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; or bias in health care and property ownership). But the simple point is that my 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

Figure 11.5. Comparing Wage Gaps across Borders to Wage Gaps within Spatially Integrated Labor Markets



Source: Clemens, Montenegro, and Pritchett 2008, figure 4.
Note: The estimate for wage gaps across borders are from table 11.1, scaled back by 1.5.

in 17 countries the "place premium" for access to the U.S. labor market for low-skill workers is greater than the *worst* estimated sex-based wage discrimination observed in any country.[11]

Similar comparisons can be made with other forms of labor market discrimination. One study (Sundstrom 2007) estimated the degree of wage discrimination against African Americans in 1939—a time in America when discrimination was egregious, blatant, and pervasive. The estimated wage ratio was 1.6—that is, 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 injustice. 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, versus Scheduled Castes in India) often reveal persistent and large wage gaps, but they never reach the levels of the discrimination at the U.S. border.

The question is, how does the massive differential treatment of people who 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 on labor mobility (or, even deeper, the acquisition of citizenship), which is a historical and political question. Rather, why is it now accepted that this differential treatment of "like" individuals is not a violation of the fundamental principle of equity of treating likes like likes? Alternatively, what is the construction of a notion of "difference" in a theory of justice so that nearly all other conditions of birth (e.g., sex, race, and nonbiologically grounded socially transmitted ascriptive identities such as ethnicity and religion) are absolutely ethically and morally unacceptable as criteria of difference, particularly for action by the state, but a person's 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 that 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 John Rawls in his classic *The Theory of Justice* (1970). His basic argument has two parts: first, a set of social arrangements should be considered just if individuals, behind a "veil of ignorance" and thus with no knowledge of the position they would subsequently occupy in that social arrangement, 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 setup is

11 These numbers are derived from a modestly different technique and functional form than those in table 11.1 and thus are not completely comparable.

that open access to participation in any given set of social arrangements (conditional on fulfilling whatever obligations those arrangements entail) is a fundamental condition of justice, and thus open borders are one corollary of that. Imagine, taking Rawls perhaps a bit more literally than he would prefer, that humans actually existed in some sense as entities capable of reasoning before birth, say, raw "intelligences." In the prebirth conference of intelligences would I ever agree that you would be born in Denmark or France or the United States and I would be born in Mali or Nepal or Bolivia, and that just you could arrange for coercion to prevent me from working in the territory controlled by your social arrangement, even for a willing employer? It is hard to see why I would. Philosophers such as Joseph Carens (1987) argue that Rawls's approach does imply open borders.

Rawls's initial means of avoiding this consequence of his approach (which may be seen as a defect, as some might regard any theory of justice that implies that open borders are flawed because it implies that the modern nation-state is just) was simply to stipulate that the nation-state was a primary and primordial entity and claim that his theory applied only to social arrangements up to the nation-state and no larger. Later he suggested that there were two different theories, one for domestic arrangements and the other between "peoples." Either approach is a radical reduction in the scope of his theory. It means to have any general *human* or *universal* theory of justice there must be one theory, Rawls's say, for relationships within a nation-state (a potentially arbitrarily formed category), another theory, which cannot be Rawlsian but is otherwise specified, to answer questions about the "just" relationships between individuals across nation-states (including who is admitted), and perhaps a third theory for the behavior of nation-states as actors. For example, are there any conditions for determining new members of a nation-state that are unjust? Could, say, a nation-state deny a person admission as a citizen under precisely the same criteria (e.g., gender, religion) for which discrimination against a 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 of such a process is fair, no matter how unequal. This theory leads quickly to the conclusion that it would be unjust to bar voluntary transactions across individuals on the basis on some justice-arbitrary condition such as 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 that 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 because 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, is there then any injustice to a "community" denying new members based on, say, their race? If so, then some other theory of justice must transcend 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. In other words, the prior practice of white neighborhoods writing in restrictive convenants that prevented the sale of homes to nonwhite individuals within a nation-state cannot be justified—no matter how radically different the nonwhite individuals' "culture" or "values" and their positive or negative contribution to the "community"—within a just nation-state. Yet somehow there is an "imagined community" (Anderson 1983) that people feel can justly do exactly that to others with absolutely no justice claim involved. 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, although "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.

The alternative to these views is the widespread view, of which Michel Foucault is the most popular wellspring, that, very crudely put, discourse is structured by power and that what discussions that pretend to be "rational" discourse on 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 of the relations of power behind discourse so that alternate realities can emerge. However, this postmodern "deconstruction" is unlike most previous deconstructions in that it has given up any illusions of displacing the "false" with the "truth"—there is no 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. Thus postmodern analysis is not an alternative theory of justice, but rather a positive 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 a topic beyond the real concern of power, an erosion of power, or conflicting powers in which neither party 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 the cross-border movement of people. The claim that "closed borders are unjust" is not 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 with three conundrums.

First, Kuwait has a massive population of non-Kuwaitis, most of whom are explicitly temporary workers and most of whom are not on a path to achieving any long-term claims on Kuwaiti citizenship. Kuwaitis and the government of Kuwait seem perfectly comfortable with co-residence with an unequal citizenship status. One can articulate a view, based on Nozick's view, that this is a just arrangement: "We make an offer of the conditions under which people may be granted access to the Kuwaiti labor market (including limits on rights, not being able to bring families, and less than due process for expulsion), 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; 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 example, 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 those of 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 no coherent view on 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—such as "refugee" or "asylum"—but a nation-state has no justice obligation whatsoever with regard to "economically" motivated migration. Suppose that an asylum petitioner could prove that his odds of dying if he were forced to return to his country were one in five within five years. This is a fantastically high fatality rate—for comparison, the fatality rate of the U.S. Army in World War II was 2.8 percent, the British Army 5.2 percent. If a one in five fatality risk was demonstrated in asylum hearings, the asylum seeker's petition would be granted. In the poorest countries of the world, the under-5 mortality rate is about 200 per thousand—one in five. So returning a Malian or Somali or Liberian woman who desires to remain on mere "economic" grounds creates this incredibly high mortality risk for all of her 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 conundrum is Americans' ambivalence about the justice of their current situation. Many if not most Americans do not want open borders, but they feel little or no ethical compunctions about violating the current immigration laws by employing undocumented workers. The most recent, spectacularly illustrative example was the arrest in December 2008 in the Boston area of the top local official of the Customs and Border Patrol for not just hiring an illegal worker, but actively aiding this person in evading the law.[12] This deep ambivalence, I would argue, stems from the conflict between the vague sense that it is just to enforce borders and the similarly vague sense that 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 do not believe in Sudan, whereas everyone around me seems to have the opposite view. As Benedict Anderson so cogently pointed out in *Imagined Communities* (1983) 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 (with a big "C"). The puzzle is not that people believe in *states*; these are an obvious juridical category. The puzzle is that people believe in *nations* and thus *nationality* as a *social* category in which discrimination is possible without any justice claims. Yet the *social* realities of the "Congo" or "Indonesia" or even "India" are that they are "communities" or "nations" that, like Yugoslavia or Sudan, exist only in the most fevered of imaginations. As 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 sisters and that a theory of justice should be universal, not contingent on place of birth or physical proximity or "nationality."

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 disintegration 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 U.S. (and other rich countries') borders. Given that the typical low-skill worker could triple his or her wages by moving to the United States (or other rich countries), discussing the inequity of cotton subsidies or "fair trade" or inadequate foreign aid or the efficacy of antipoverty interventions leaves one wondering why this and not that?

Third, I cannot see any coherent way in which to discuss "equity" (or fairness or justice) in the context of globalization that does not seem to boil down to an unsupported claim about the primacy of nation-states as

12 Ironically, as I arrived in Boston in February 2009 a photo of this official still greeted me as I cleared customs.

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" a nightmare from which, I suspect and hope, the world may one day awake.

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[[AU: I added Clemens, Montenegro, and Pritchett 2008 and 2009. They are cited repeatedly in text and figures and tables are drawn from them, but they were not in original ref. list. Are these the correct citations?]]

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[[AU: Pls. add these World Bank pubs., which are cited in the text.]]

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