

Is the Nation State the Enemy of Global Equality?

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The tension

- Cross-country labor mobility could be, in principle, potent force for global equality
- Can we justify still restrictions at the border?
- Counter-argument #1: ethical cosmopolitanism is not a compelling principle
 - “it’s defensible for residents of rich countries to care less for people across the border”
 - but how much less?
- Counter-argument #2: efficacy of nation-state institutions place limits on acceptable levels of domestic heterogeneity
 - diversity undercuts public-goods provision
 - but does it, and what kind of diversity matters?
- What does history teach us, if anything?
 - it is differential rates of growth of countries that drive patterns of global inequality
 - Importance of national growth strategies

Poor people or poor countries?

Question: Would you rather be rich in a poor country, or poor in a rich country?

- Assume you care only about your own income and purchasing power
- Define rich and poor (within a country) as follows:
 - rich : having the same income level as people in the top 5% of a country's income distribution
 - poor: having the same income level as people in the bottom 5% of a country's income distribution
- Define rich and poor country as follows
 - rich country: a country that is in the top 5% of all countries ranked by per-capita GDP
 - poor country: a country that is in the bottom 5% of all countries ranked by per-capita GDP
- Which would you rather be?

And the answer is...

y_j per-capita income (GDP) in country j ;
 ϕ_{dj} income share of ventile d in country j ;
 y_{dj} average income level in ventile d ($=1,2,\dots,20$) in country j .

$$y_{dj} = 20 \times \phi_{dj} \times y_j$$

	y_j	ϕ_{dj}	Representative income of ...
Poor country (Niger)	\$573	income share of top 5% in poor country = 0.254	rich individual in poor country = \$2,918
Rich country (Norway)	\$47,547	income share of bottom 5% in rich country = 0.014	poor individual in rich country = \$13,049

(all figures for 2012, in 2005 PPP-adjusted \$)

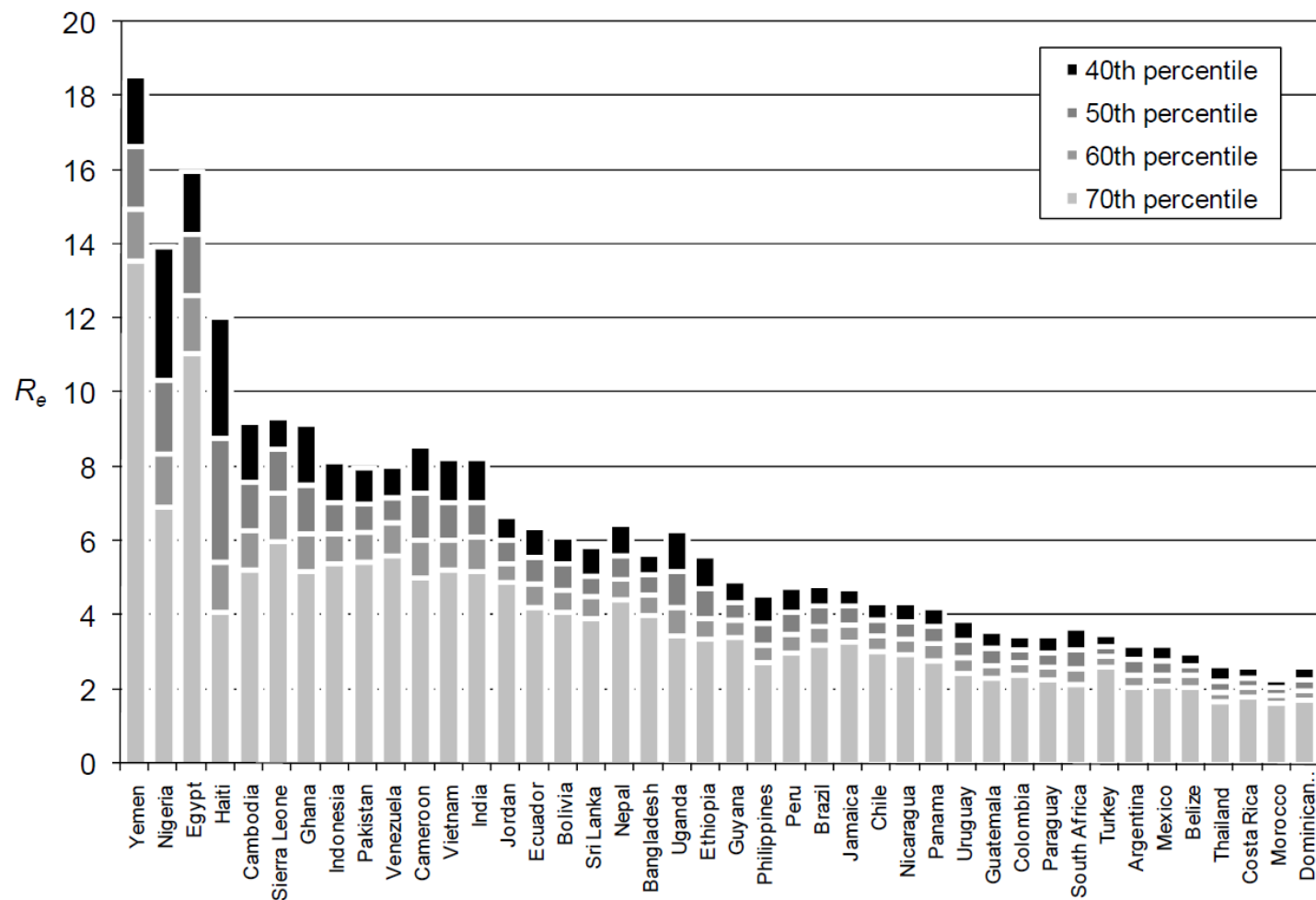
Implication

The bulk of global inequality is generated by income gaps between countries, not within countries

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Estimated wage gains from cross-border labor mobility are enormous



Source: Clemens, Montenegro, and Pritchett (2009)

The (conditional) material basis of cosmopolitanism

“If the group to which we must justify ourselves is the tribe, or the nation, then our morality is likely to be tribal, or nationalistic. If, however, the revolution in communications has created a global audience, then we might need to justify our behavior to the whole world. This change creates the material basis for a new ethic that will serve the interests of all those who live on this planet in a way that, despite much rhetoric, no previous ethic has done.”

Note how global ethic is conditional – in this case, on death of distance

The arbitrariness of national borders for ethical judgments?

- “there is something of a tyranny of ideas in seeing the political divisions of states (primarily, national states) as being, in some way, fundamental, and in seeing them not only as practical constraints to be addressed, but as divisions of basic significance in ethics and political philosophy.”

Amartya Sen, The Idea of Justice, 2009, p. 143.

The distributional ethics of keeping foreign workers out

- Even under most unfavorable assumptions regarding distributional consequences for native workers, the distributional weight on the global poor implied by global mobility restrictions is very low
- Consider the movement, say, of an additional 60 million workers from S to N (10% of N's labor force)
- Let
 - elasticity of Northern wages w.r.t labor supply = -0.3 (Borjas)
 - wage gains to Southern workers from mobility = x4 (Clemens et al.)
 - average wages in N and S = \$3,000 and \$500 (per month)
 - social welfare be additive in individual utilities and logarithmic in incomes
- Rejecting such mobility requires that we value a person on the other side of the border at less than 22% of “one of our own”
 - accepting increased global mobility of workers requires only the mildest form of cosmopolitanism
 - but see comparison to foreign aid on next slide
- The ethics look even more unacceptable when we include
 - gains to other natives (e.g., capital owners)
 - consumption, innovation, capital accumulation effects...

A foreign aid comparison

- Assume
 - same \$3,000-\$500 income gap between N and S
 - alternatively that the taxes that finance aid come out of wage bill
 - same additive logarithmic utility function
 - θ share of aid flows are wasted
- Consider raising aid to S by 1% of N income
- Largest implicit weight on S residents (relative to N residents) that would make this a bad idea:

wastage θ	0	0.1	0.2	0.25	0.3	0.4	0.5	0.6	0.8
threshold weight	17%	19%	21%	22%	24%	28%	34%	42%	84%

More on distributional justice: advantage of labor mobility over trade

- Trade (e.g. offshoring) is both similar and dissimilar to domestic competition
 - similar insofar as it creates losers as well as gainers in the process of generating wider economic opportunities
 - dissimilar insofar as it forces competition under ground rules that are sometimes prohibited at home
 - sweatshops, labor rights, etc.
- Such competition can therefore undermine domestic norms and institutional arrangements
 - “what’s an acceptable redistribution?”, employer-employee bargaining, labor-market rules, ...
- Labor mobility, in lieu of trade, has the virtue that domestic standards and rules are applied to foreign workers
 - overcomes the “unlevel playing field” argument that can apply to trade and outsourcing
 - (note: this presumes we reject, as we should, two-tier labor markets)

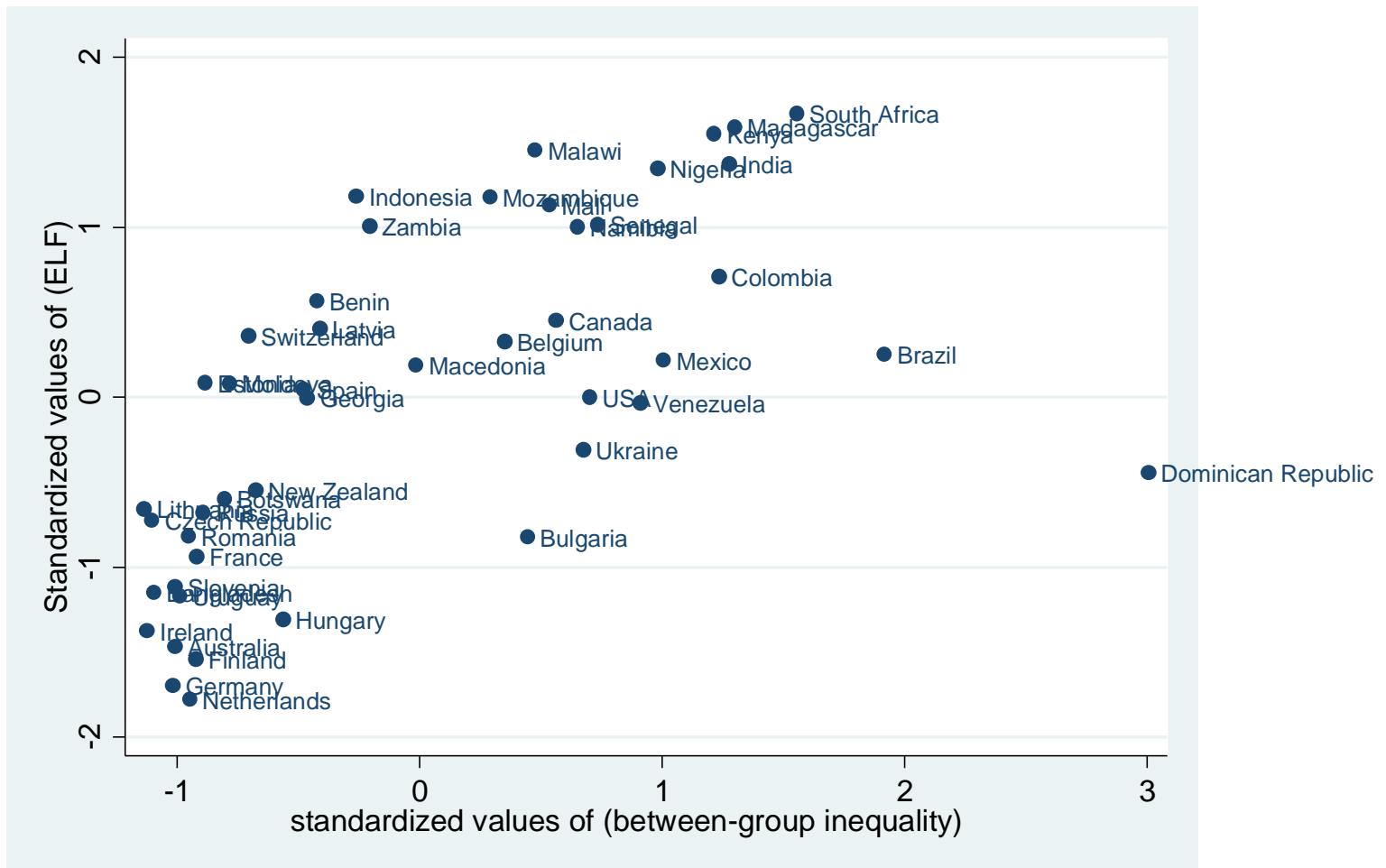
Much harder question: how much mobility?

- Trade analogy: the lower the barriers to mobility the better?
- Shouldn't we completely open borders to foreign workers then?
- One counterargument: full cosmopolitanism is not the only compelling ethical standard
 - as national wage gaps narrow, case for mobility becomes weaker at the margin
- A second counterargument: efficacy of domestic institutions may require significant limits to cross-national mobility
 - well functioning markets require a range of non-market institutions
 - these are typically provided domestically, by the nation state

How might open borders undermine efficacy of domestic institutions?

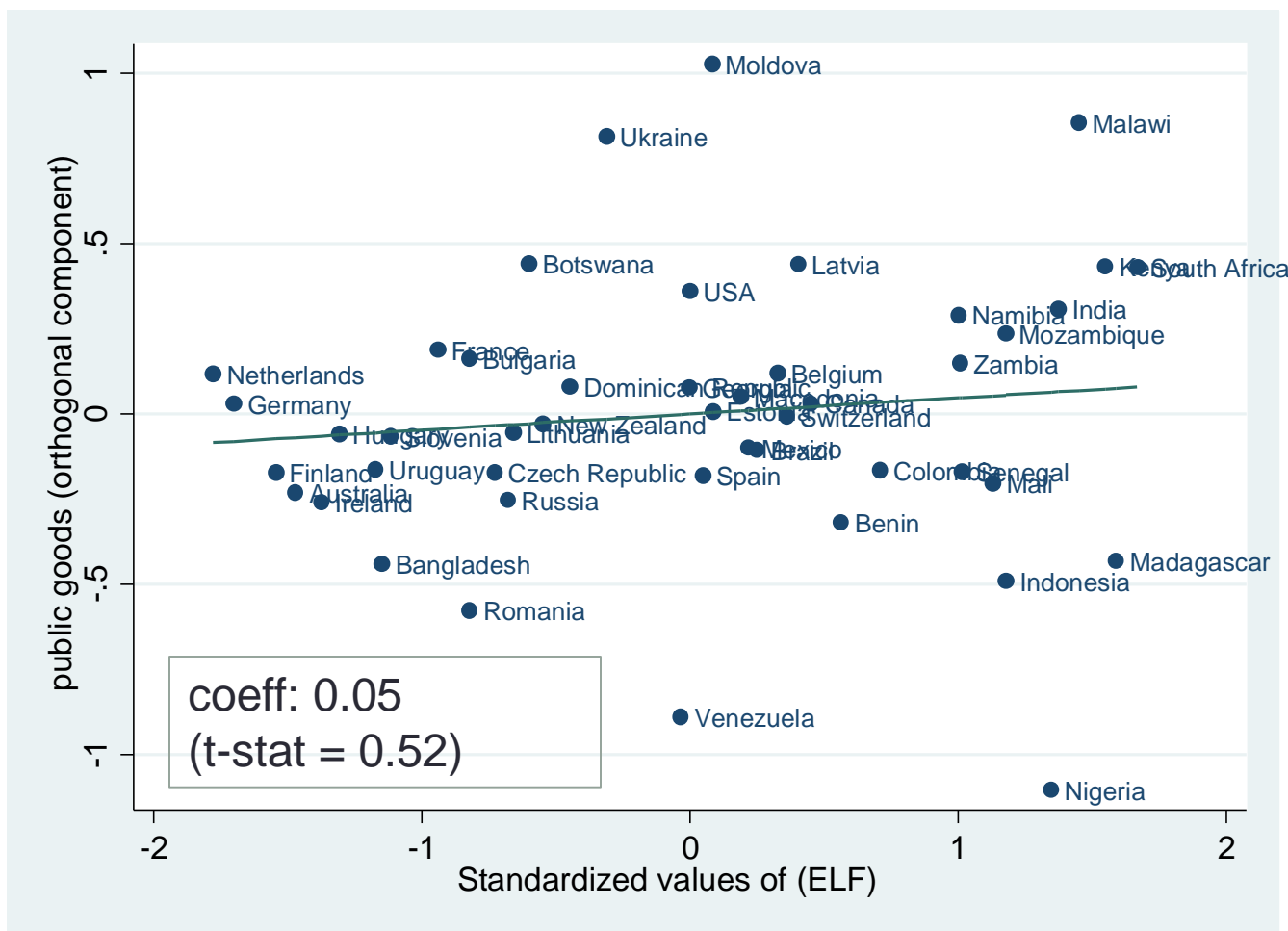
- unmanageable flows
 - Borjas: 2.6 bn workers (95% of the South) move in benchmark model
 - but can be phased in over very long time
- excessive domestic inequality
 - wages will be depressed significantly unless capital stock responds
 - countries open to labor mobility are “staggeringly unequal” (Weyl)
 - still, long-run effects of immigration are much disputed
- too much cultural/ethnic/linguistic diversity
 - public goods provision requires social trust, homogeneity (Alesina et al., and subsequent literature) ?
 - but low public goods and ethnic fractionalization may both be legacy, rather than cause, of weak states (Wimmer)

ELF versus between-group inequality



Source: Baldwin and Huber (2010).

Public good and ELF – controlling for BGI



Based on Baldwin and Huber (2010). Controls: In pop, In GDP, BGI, survey dummies. Robust s.e.

History: what about the mass migration of 19th century?

Williamson:

“mass migration after 1870 augmented the 1910 New World labor force by 49 percent and reduced the 1910 labor force in the emigrant countries around the European periphery by 22 percent. These big labor supply effects can be converted easily into a real wage impact in both sending and receiving countries. My colleagues and I estimate that effect in a series of papers and conclude that mass migration alone can explain about 70 percent of the real wage convergence observed in the late 19th century Atlantic economy.”

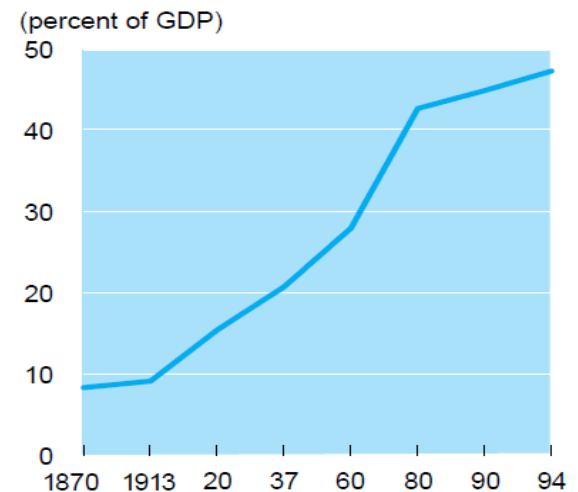
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- But the mass migrations of the 19th century occurred when the state was very small
 - low levels of public goods provision
 - still, migration backlash in early part of 20th century
- And mass migration made little dent on global inequality compared to differential growth, driven by industrialization-deindustrialization

Government spending takes off



Source: Tanzi and Schuknecht (1996); average of 17 advanced economies

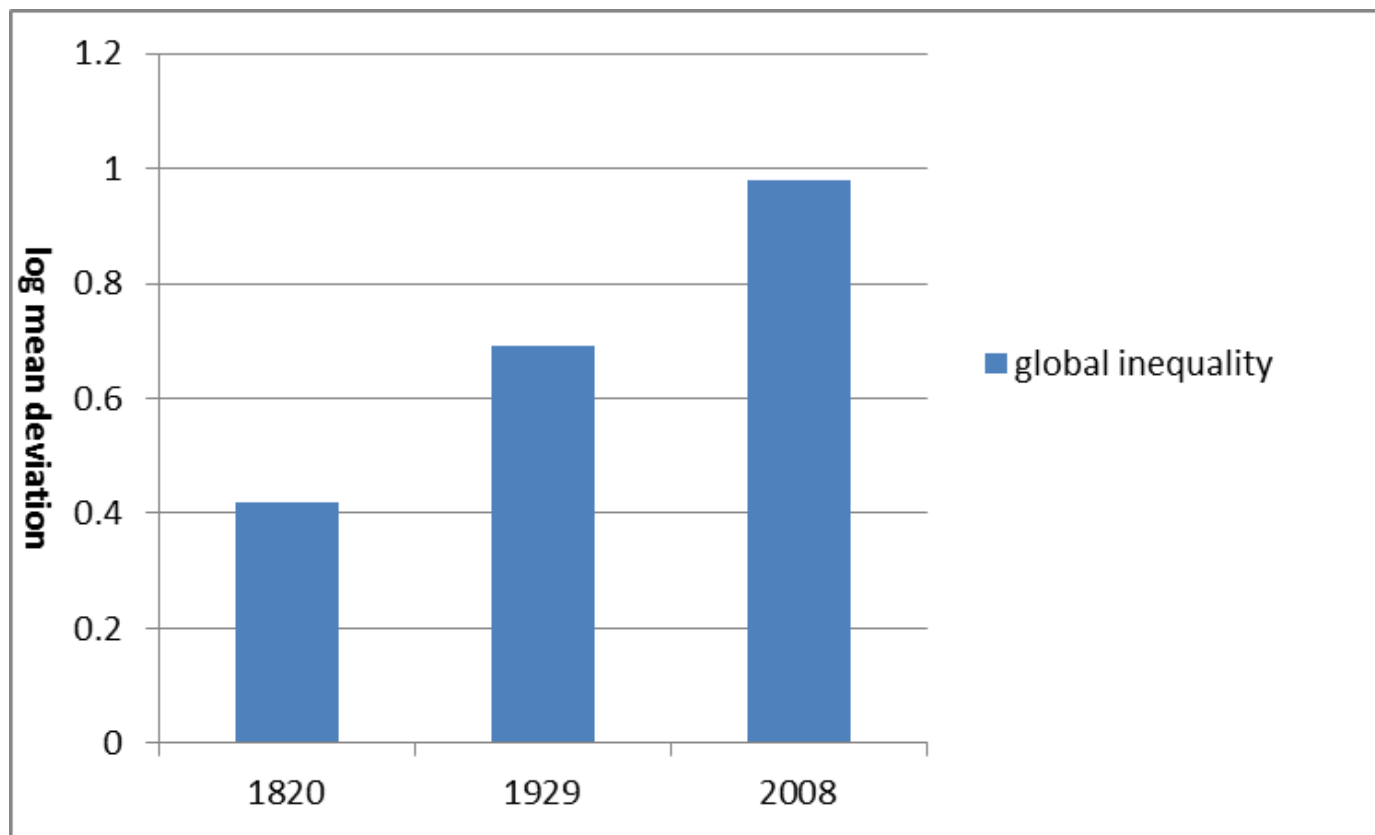
History: the first era of globalization and global inequality

Table III.1: Industrialization before the First World War
Per-capita levels of industrialization (U.K = 100 in 1900)

	1750	1800	1830	1860	1880	1900	1913
<u>Developed countries</u>	8	8	11	16	24	35	55
U.K.	10	16	25	64	87	100	115
U.S.	4	9	14	21	38	69	126
Germany	8	8	9	15	25	52	85
Japan	7	7	7	7	9	12	20
<u>Developing countries</u>	7	6	6	4	3	2	2
China	8	6	6	4	4	3	3
India	7	6	6	3	2	1	2
Brazil	n.a.	n.a.	n.a.	4	4	5	7
Mexico	n.a.	n.a.	n.a.	5	4	5	7
<u>Source: Bairoch (1982)</u>							

As the West industrialized, the rest de-industrialized, setting the stage for long-term global economic divergence. Global migration reinforced this process.

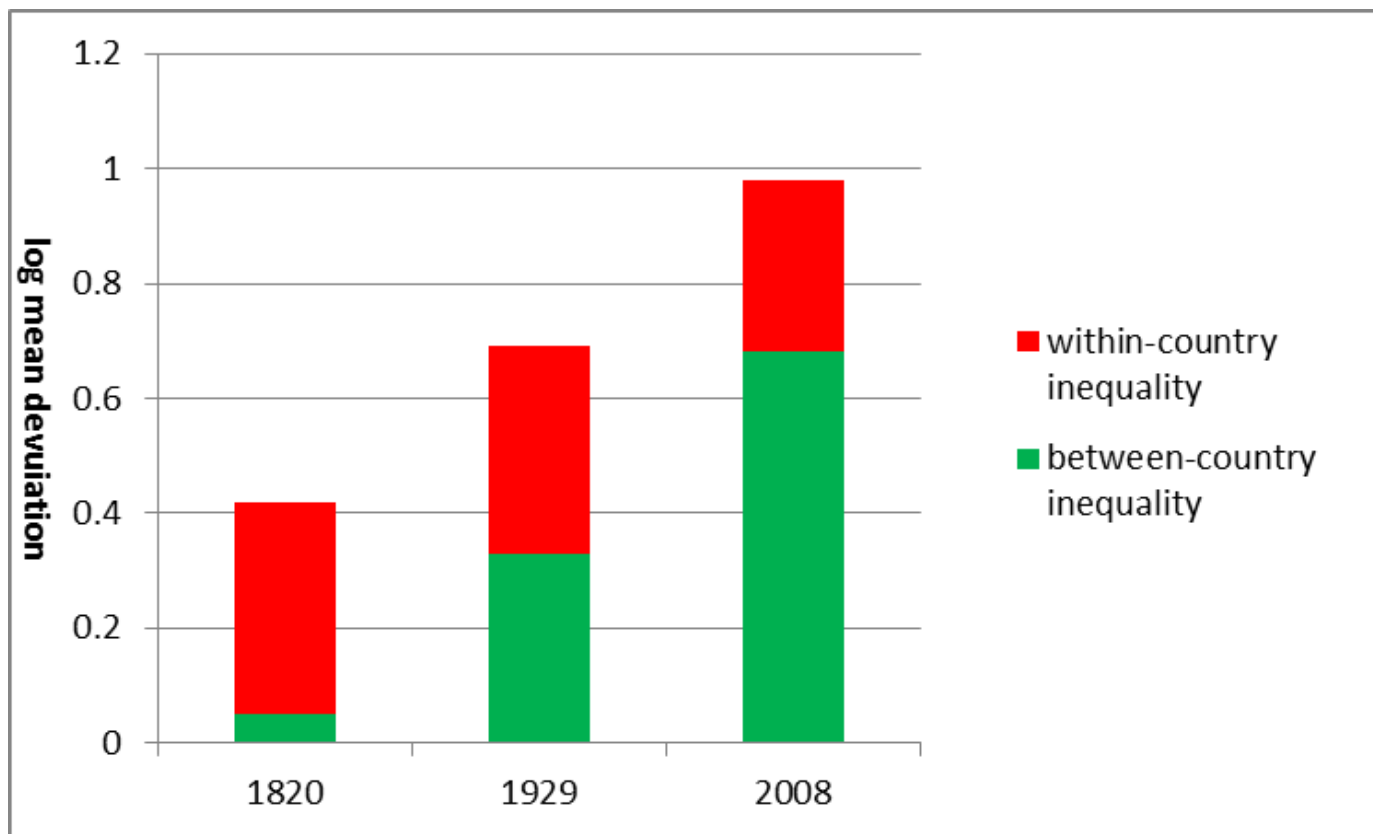
How growth shaped global inequality



The rise in global inequality

Source: Bourguignon and Morrison (2002) updated using data from Milanovic (2013)

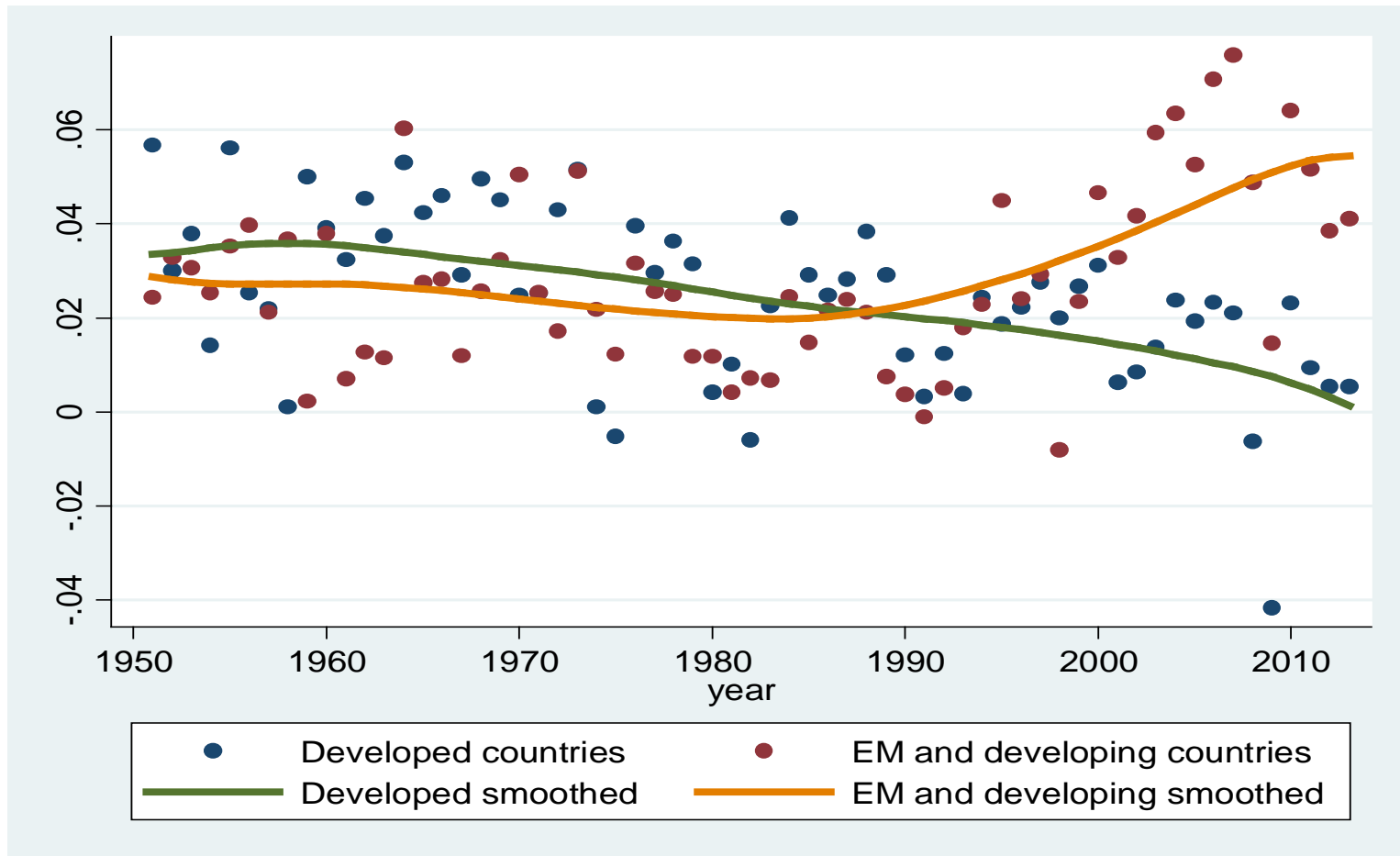
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Accounting for the rise in global inequality

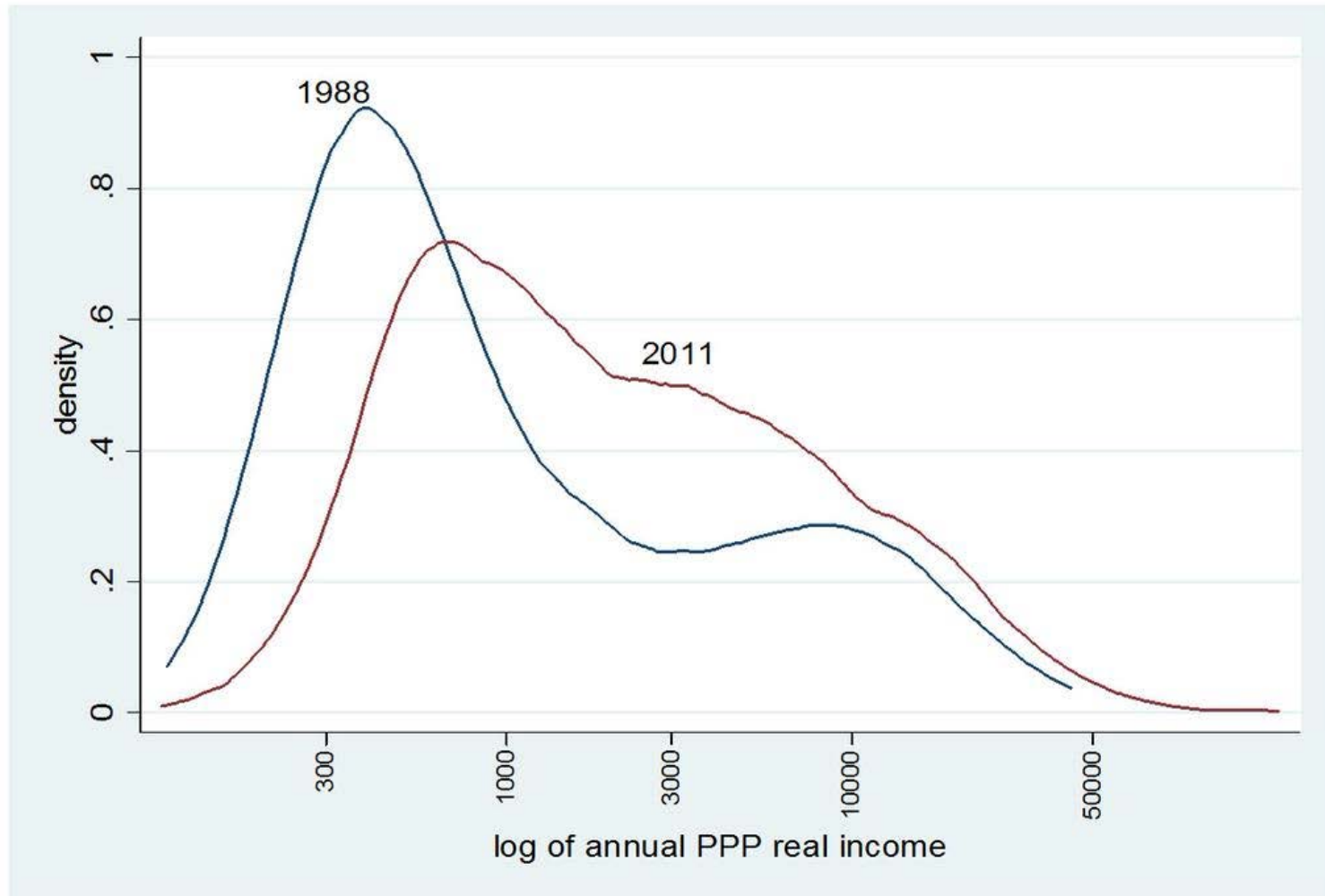
Source: Bourguignon and Morrison (2002) updated using data from Milanovic (2013)

The recent growth boom in developing countries...



Growth trends in developed and developing countries since 1950 (per-capita GDP)

and its consequences for global inequality



Source: Milanovic (2015)

Markets, institutions, and nation states

- Rich countries are rich because they have solid market-supporting institutions
 - markets need, stabilizing, regulating, legitimizing
 - corresponding institutions: micro, macro, political
- Poor countries that have done well are those that have used a mixed strategy
 - judicious balance of openness with state intervention
 - China: “open window, but with mosquito screen”
 - industrial policies, managed exchange rate, capital controls
- Existence of states and the public goods they provide is critical to elimination of global poverty and inequality
- It would be a pyrrhic victory to remove restrictions on labor mobility to the point where it weakens the capacity of nation states to provide the public goods needed for high productivity

Concluding comments

- There are good arguments for both:
 - expanding labor mobility, at the margin
 - placing limits on it that would leave us far short of full mobility
- Economics is a science of trade-offs, so it should not be surprising that “corner solutions” are not optimal
- My sense is that with respect to labor mobility we are at the “too low” side
 - but have no idea what would be the right amount
- Nation state is not the enemy of global equality
 - effective growth strategies remain crucial to reducing global inequality
 - will likely require stronger, rather than weaker, nation states