

# Global Inequality

From Class to Location,  
from Proletarians to Migrants

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## Abstract

Inequality between world citizens in mid-19th century was such that at least a half of it could be explained by income differences between workers and capital-owners in individual countries. Real income of workers in most countries was similar and low. This was the basis on which Marxism built its universal appeal. More than 150 years later, in the early 21st century, the situation has changed fundamentally: more than 80 percent of global income differences is due to large gaps in mean incomes

between countries, and unskilled workers' wages in rich and poor countries often differ by a factor of 10 to 1. This is the basis on which a new global political issue of migration has emerged because income differences between countries make individual gains from migration large. The key coming issue will be how to deal with this challenge while acknowledging that migration is probably the most powerful tool for reducing global poverty and inequality.

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**Global inequality: From class to location,  
from proletarians to migrants**

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## 1. Global inequality in the mid-19<sup>th</sup> century

In the spring of 1848, as the pan-European revolution was nearing its crescendo, Karl Marx and Friedrich Engels wrote probably the best known political pamphlet of all time: *The Communist Manifesto*. When they surveyed the situation of the world, they persuasively and repeatedly insisted on the fact that people in all “civilized” societies were divided into two large classes: that of the owners of the means of production (the capitalists), and those that were selling their labor for a living and held no property (the proletarians). It was an almost self-evident division at the level of each and every country. Having capital meant being rich; having only labor power meant being poor. There were not too many people in-between, with middling levels of income, whether those who owned some capital and yet had to work with their hands like artisans, or peasants who toiled their own land. Moreover, even they—the logic of capitalist development was implacable—were doomed to extinction or irrelevance, as they would gradually “dissolve” mostly into proletariat with perhaps only a few making it to the capitalist class. The division into two or three main classes (the third being landowners, who in Marx and Engels’ view could be assimilated to capitalists) was not, of course, introduced by Marx and Engels. It has been present in contemporary political economy, and it hailed back to Adam Smith, and even to François Quesnay. It was used by David Ricardo in his *Principles*, published in 1817, as a key feature, motivating his entire economic analysis.

So evident seemed the class division in all societies that Marx and Engels concluded their *Manifesto* by writing that “...modern industrial labor, modern subjection to capital, the same in England as in France, in America and in Germany, has stripped [the proletarian] of every trace of national character” (1978, p. 482). Being proletarian was thus a global condition, they held, and being global, it presented an ideal basis on which international solidarity of the working class could be built. Proletarians were equally poor and exploited everywhere and they could liberate themselves and usher in classless societies only in a common effort that knew no national borders. This was expressed in Marx and Engels’ famous statements “[t]he proletarians have nothing to lose but their chains. They have a world to win” (ibid, p. 500). Local emancipation and international solidarity were thus intertwined, part of the same struggle.

This same view of workers who have no true homeland because they are everywhere equally destitute and powerless was reflected, only a year earlier, in a speech delivered to the

Free Trade Congress in Brussels by Engels. He defended his and Marx's pro-free trade stance as follows:

Under freedom of trade the whole severity of the laws of political economy will be applied to the working classes. Is this to say that we are against Free Trade? No, we are for Free Trade, because by Free Trade all economical laws, with their most astounding contradictions will act upon a larger scale, upon a greater extent of territory, upon the territory of the whole earth; and because from the uniting of all these contradictions...will result the struggle which will itself eventuate in the emancipation of the proletariat.<sup>2</sup>

Engels believed that by letting capitalist rules of the game embrace ever greater portions of the globe, the outcome of such a capitalist domination would be similarity of economic conditions among workers. The similarity in economic conditions would, in turn, lead to the concordance of economic interests and to the emergence of solidarity among workers of different countries. Ultimately, it would culminate in a worldwide revolution.

But did similarity of economic conditions among workers exist then? Did Marx and Engels depict the reality of that era correctly? Today we have more data than Marx and Engels possessed at the time. Yet, their insight is confirmed by what we know today, both as regards the ubiquitous split between the two major classes and similarity in the economic position of the laborers, or, more broadly, the poor across countries.

Consider class and income compositions of a couple of societies for which we have the data from the mid-19<sup>th</sup> century. In R.D. Baxter's social table for England and Wales for 1867,<sup>3</sup> incomes of the wage-earning classes, representing 72 percent of the population and divided into eight subgroups, start at the bottom of the distribution, just above paupers, with an estimated per capita income equal to one-third of the national mean, and end at the richest point, with an income 10 percent below the mean. The propertied classes (a little over 6 percent of the population) covered the upper part of the income distribution. The income ratio between the two classes was greater than six to one.

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<sup>2</sup> See Karl Marx and Frederick Engels, *Collected Works*, vol. 6, New York, International Publishers, 1976, p. 290. Quoted from Moellendorf (2009, p. 94).

<sup>3</sup> Available at Peter Lindert's Website "Global Price and income History Group", see <http://gpih.ucdavis.edu/>.

England was the prototypical and the most advanced capitalist economy. But we have the data for Chile in 1861 which reveal the same, or even sharper, polarization.<sup>4</sup> Working classes, from the poorest (female fisherman) to the richest (shoe-makers), covered the range of income that goes from less than one-seventh of the national mean to two-thirds of the mean. Only the artisans, who mixed ownership of some capital with their own labor, and possibly even hired a few workers, achieved an income higher than the national average. At the high end of the income distribution were owners of manufactures and mines with incomes between 20 and 55 times the mean, and land owners and large-scale merchants with respectively 35 and 9 times the mean. These top groups comprised only 2 percent of the population while working classes (including peasants) accounted for more than 90 percent.

But if workers filled in most (or perhaps in all) countries, that part of the income pyramid which ran from the subsistence to just somewhat under the mean, their real incomes in various countries could still have differed a lot if country means were very different. But, as we shall see, around the 1850s, they were not. Angus Maddison has estimated that around 1850, the mean income in the poorest countries in the world (Ceylon and China) was around \$PPP 600.<sup>5</sup> At the top were the Netherlands and the United Kingdom with a GDP per capita of about \$PPP 2,300. Thus, the ratio between the top and the bottom (of country mean incomes) was less than 4 to 1. Consequently, the better-off workers who earned incomes close to the national means, could not, in terms of their standard of living, differ from each other by more than the ratio of 4 to 1. And the bulk of workers who lived at less than their countries' average income and closer to the subsistence, could not have incomes that differed by more than 2 to 1—with many of them living at approximately the same subsistence level. Indeed, Broadberry and Gupta (2006, Table 6, p. 17) show that in the period 1800-1849, the wheat-wage of an unskilled daily laborer in India (among the poorest countries in the world then) was about 30% of the wage of a similar worker in England. And comparing the Netherlands with the Yangtze valley, two relatively developed areas sharing a number of similar geographic features, Li and van Zanden (2010, p. 21) conclude

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<sup>4</sup> The data are derived from an Occupational Census, were consolidated by Javier Rodriguez Weber, and can be found on Peter Lindert's Website "Global Price and Income History group" (see the previous footnote).

<sup>5</sup> In 1990 international prices.

that in the 1820s, real wages in the Netherlands were about 70% higher than in the Yangtze valley.<sup>6</sup>

Thus, similarity in the economic position of workers across the world, implicitly assumed by Marx and Engels, had a firm basis in the reality of the time. And, as we have seen, this is crucial because it is the similarity in the economic positions which allowed Marx and Engels, as well as later Marxists, to derive the principle of international solidarity of the working class.

We can reach the same conclusion that the main income cleavage was the one between classes, and not between countries, from a slightly different vantage point, if we consider global inequality, that is inequality between world citizens. In a pioneering work, François Bourguignon and Christian Morrisson (2002) have used a collection of their own and other authors' estimates of income distributions for 33 country-groups and mean incomes from Angus Maddison to construct worldwide income distributions, at approximately twenty-year intervals, for the period 1820-1992. They estimate global inequality, measured by the Gini coefficient, to have been about 53 Gini points in 1850, and to have been composed in almost equal proportions of between-country and within-country inequalities. The former (between-country inequality) refers to that part of inequality that is due to the differences in country mean incomes while the latter (within-country inequality) is that part of total inequality which is due to inequalities existing in each individual country. To fix the ideas, we can call the between-country inequality "locational" because it depends on the differences of mean incomes between various places (countries), and the within-inequality, "class" inequality because it depends on different individuals, living in the same country, having different incomes and belonging to different social groups.<sup>7</sup> Specifically, Bourguignon and Morrisson estimate that the global Gini in 1850, amounting to 53.2 points, can be broken down into 25.9 Gini points (49 percent) due to location, and 27.3 Gini points (51 percent) due to class. Thus, around mid-19<sup>th</sup> century, one-half of inequality between individuals in the world was explained by unequal development of countries and another half by income

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<sup>6</sup> Li and van Zanden's results favor the view that appreciable difference in wages existed as early as 1800s in opposition to other writers (especially Pomerantz (2001) and to some extent Bairoch, 1997, p. 111) who believe that the gaps were less.

<sup>7</sup> Between-inequality is inequality that would exist if everybody in every country had the mean income of his/her country, or in other words, if inequality *within* each nation were zero.

differences between social classes—that is, essentially between workers and capitalists. How does it compare with the situation today?

## 2. Global inequality in the early 21<sup>st</sup> century

If we use the same decomposition between location and class today, when our data are much better than for the past, we find that of the global Gini, which amounts to 65.4 points, 56.2 Gini points or 85 percent is due to differences in mean country incomes, and only 9.2 Gini points (15 percent) to “class”.<sup>8</sup> Not only is the overall inequality between world citizens greater in the early 21<sup>st</sup> century than it was more than a century and a half ago, but its composition has entirely changed; from being an inequality determined in equal measures by class and location, it has become preponderantly an inequality determined by location only. This fact is of great political and economic significance.

Figure 1 helps us visualize this new reality. On its horizontal axis we draw the population of a given country divided into twenty equally-sized groups, called ventiles, each including 5% of the population, ranked by their average per capita incomes. Thus, value 1 on the horizontal axis corresponds to the poorest 5% of the population in a given country, and value 20, to the richest 5% of the population. On the vertical axis we show the global percentile position of each national ventile. The vertical height, corresponding for example to the bottom ventile in the US, is  $y=60$  and it indicates that the poorest 5% of Americans have an income that places them at the 60<sup>th</sup> global percentile.<sup>9</sup> In other words, they are better-off than 60 percent of world population. The same interpretation applies to any other national ventile. Figure 1, using the example of BRIC countries (Brazil, Russia, India and China) and the US, illustrates vast differences in incomes which exist between countries, and in particular between the poorest ventiles of the population. While the poorest Americans are (as we have just seen) at the 60<sup>th</sup> global percentile, the poorest Brazilians and Indians are at the 3<sup>rd</sup> or 4<sup>th</sup> global percentile, that is among the poorest people on the planet. The poorest Chinese are around the 16<sup>th</sup> global percentile, the poorest Russians around the 37<sup>th</sup> percentile. Even more striking is the comparison of the income of the

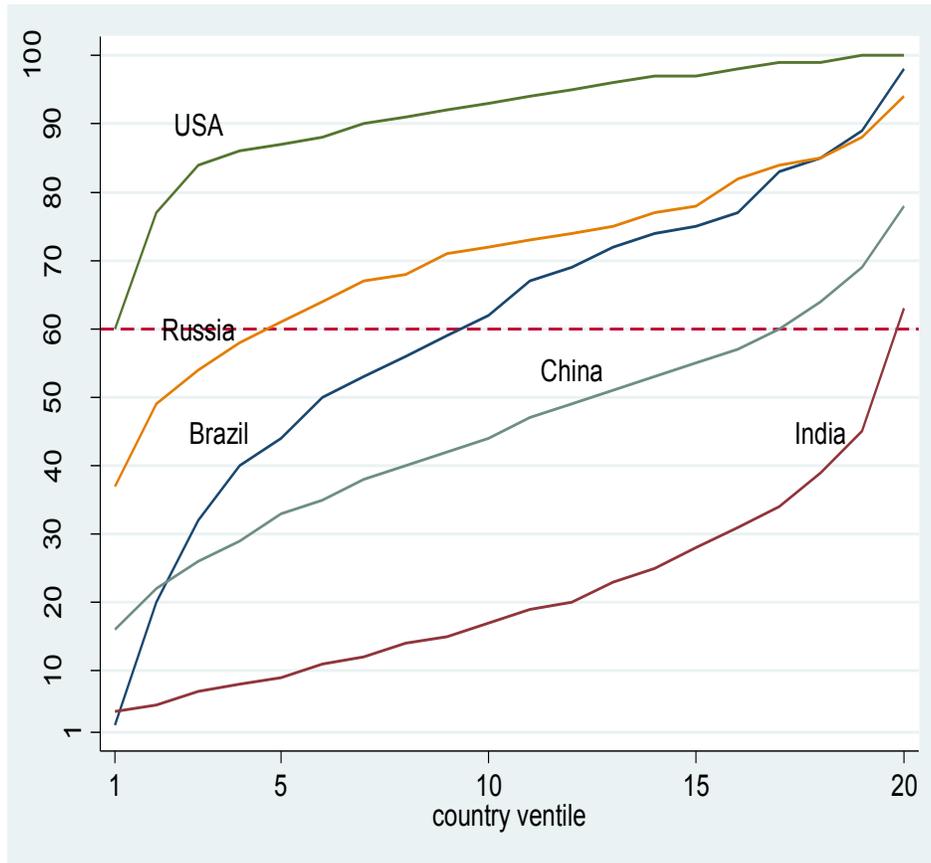
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<sup>8</sup> All 2005 global data derived from nationally-representative household surveys conducted around year 2005 (see World Income Distribution (WYD) database available on <http://econ.worldbank.org/projects/inequality>). In order to keep comparability with the precedent calculation for mid-19<sup>th</sup> century, I use price levels and PPPs that are commensurate with 1990 PPPs rather than the most recent version of PPPs (year 2005). The latter gives an overall higher global inequality (70 Gini points rather than 65.4; see Milanovic 2011, and Milanovic 2012). The share of the between-country component is also about 85 percent if we use more up-to-date PPPs.

<sup>9</sup> The position of the poorest ventile of the rich country is indicated by a broken line in this and following graphs.

poorest groups of Americans with the richest Indians: the second poorest ventile of American population is approximately at the same level of income (just 1 global percentile lower) than the richest 5% of Indians.<sup>10</sup>

Figure 1. Importance of location vs. class: United States compared to BRIC countries, 2005



Note: Based on national household surveys; people ranked by per capita income or per capita consumption adjusted for price differences between the countries using the most recent PPPs. BRIC is an acronym denoting the emerging market economies of Brazil, Russia, India and China.

The figure could be made both more dramatic or less dramatic without losing anything of its essential message: namely, that most of global income differences today depend on location. We can make the figure more dramatic by contrasting incomes of people living in a

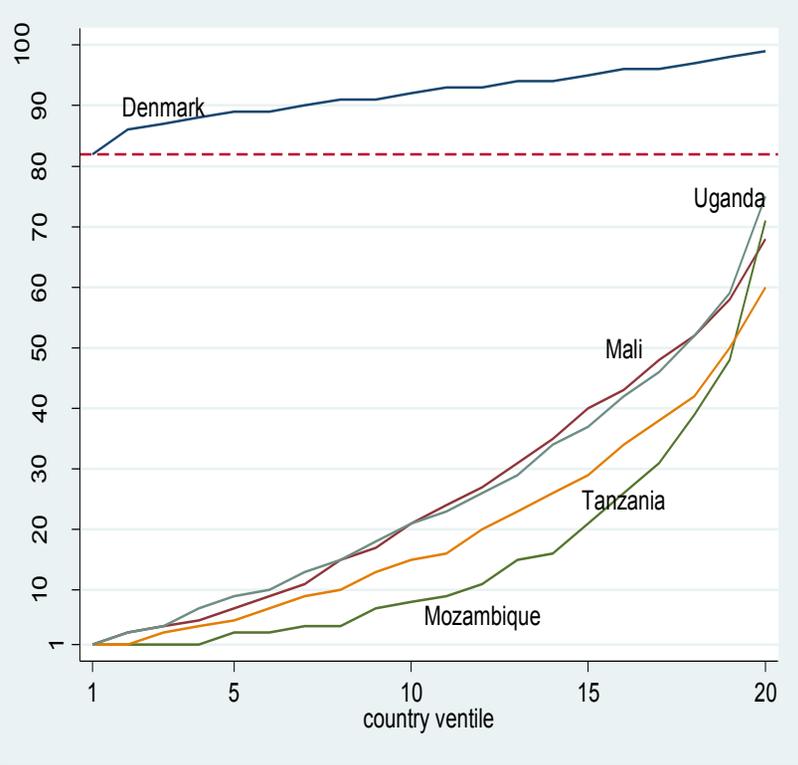
<sup>10</sup> Note that if class alone determined one's global income position, and all country means were the same, the line for every country would be a straight 45 degree line.

very rich and egalitarian country like Denmark with people living in various poor African countries (Figure 2a). Danish poorest ventile has an income that places it as the 82<sup>nd</sup> global percentile while in many African countries even the income of the richest ventile hardly exceeds the 60<sup>th</sup> or 70<sup>th</sup> global percentile—implying thus that the two distributions do not overlap at all. In other words, if we lined up all individuals from these countries by their per capita income, Denmark’s income distribution would only start at the point at which many African countries’ distributions end. The richest Malians are poorer than the poorest Danes.

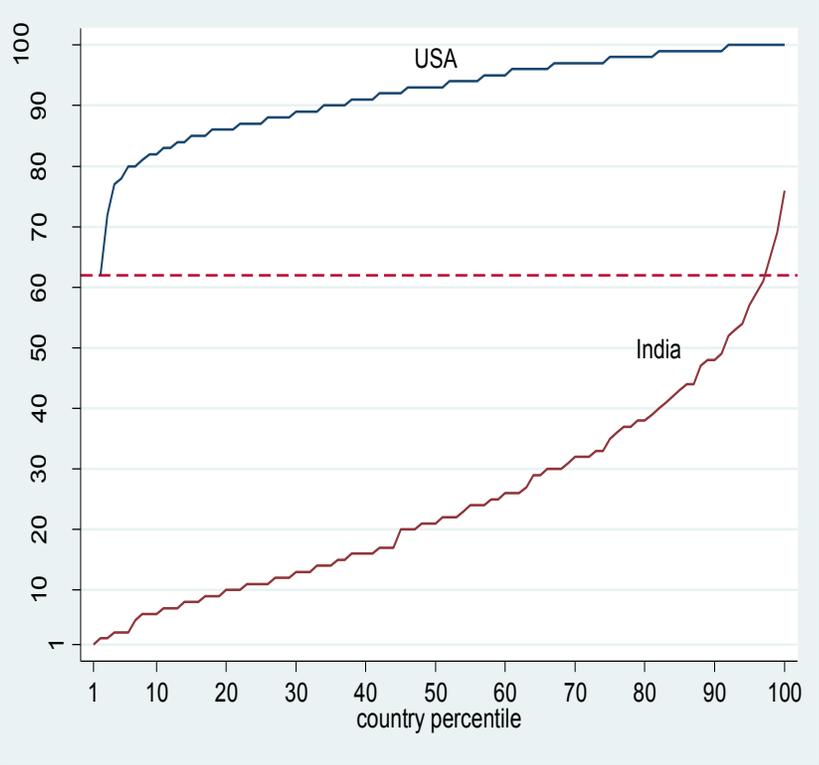
The picture of global location-induced inequality could be also rendered a bit less dramatic, if we present it in a more finely-grained form, *viz.*, if instead of using ventiles on the horizontal axis, we used percentiles of national income distributions, or even individuals lined up and ranked one by one. For sure, we should then be able to find some Malians who are richer than some Danes, and the two distributions would indeed display some overlap. However, that overlap would be, in a statistical sense, minimal: there may be one-half of a percent or 1 percent or even 2 or 3 percent of Malians who are richer than the poorest Danes, but this does not in any way invalidate the main message from our graph. In effect, when we contrast US and India, and instead of ventiles divide their populations into percentiles, the overlap is only 4 percent: that many Indians are better off than the poorest Americans (see Figure 2b).

Figure 2. Income gaps between various countries' populations; early 21<sup>st</sup> century

a. Denmark vs. selected African countries (ventiles)



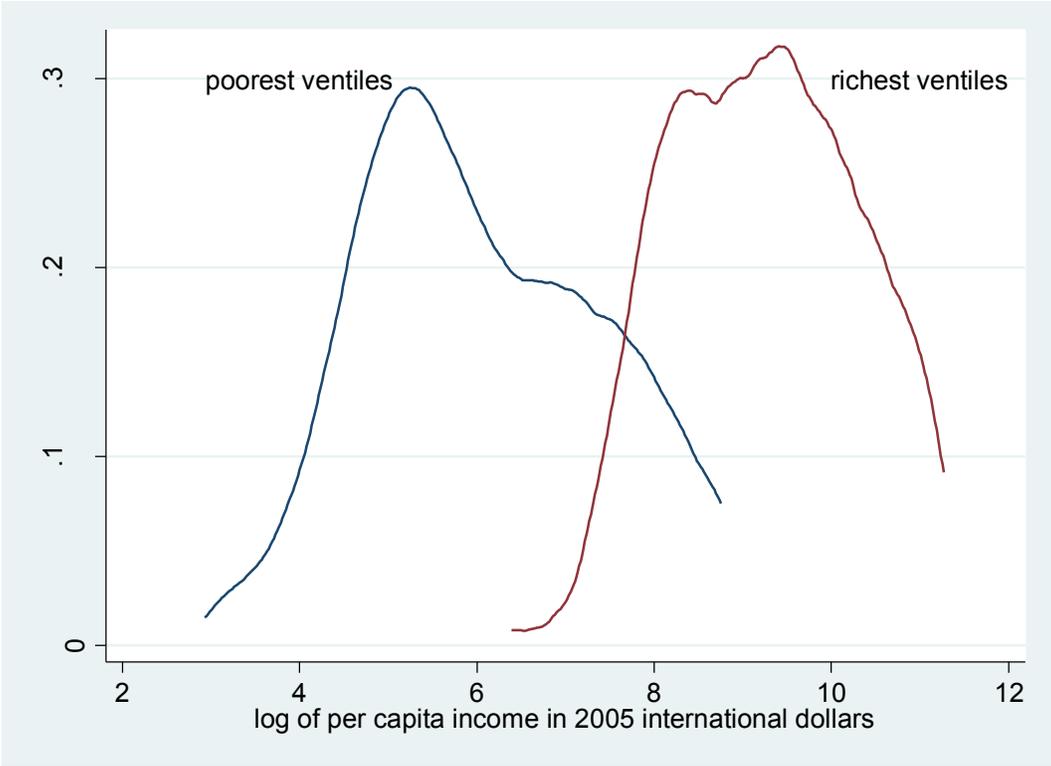
b. US vs. India (percentiles)



Note: Based on national household surveys; adjusted for price differences between the countries using most recent PPPs. Year 2005.

Figure 3 displays broadly the same information in a different way. It shows the distribution of per capita \$PPP incomes received by the lowest and highest ventiles in all countries in 2005. Two points stand out. First, the distributions are quite wide indicating that people who are nationally poor (or nationally rich) receive vastly different incomes, depending on what country they live in. Second, the two distributions do intersect, implying that there are countries such that people who are poorest there are yet better-off than the richest people in other countries. The link between being nationally and being globally poor is severed.

Figure 3. Income of people belonging to the poorest and richest country ventiles (year 2005, 114 countries)



Note: Based on national household surveys; adjusted for price differences between the countries using most recent PPPs.

The income gap between countries' average incomes is much greater today than around 1850. Again, using Maddison's data, in order to keep comparability with the 1850 results, we find that the top-to-bottom ratio in 2007 was in excess of 100 to 1 (as opposed to 4 to 1 that it was in 1850). The increase in the gap is easy to understand: while the poorest countries today are

not richer than the poorest countries in the past, the richest countries are immensely better-off. Instead of Britain and the Netherlands that were the richest countries in 1850, today, we have USA, Singapore and Norway, all with incomes around \$PPP 30,000, that is, 13 times richer than Britain or the Netherlands in 1850.<sup>11</sup> At the bottom of per capita income “league”, we have Congo, Burundi, Niger and Central African Republic, all with incomes just above subsistence, some \$PPP 350-700 per capita, not at all different from the level of the poorest countries in 1850. The world today presents a peculiar picture where some of its parts are immensely richer than ever in history while other parts have an income level about the same as it was 150 or even 500 years ago. Thus to speak of an average global income is correct in an arithmetic sense but otherwise lacks much meaning.

Even when we contrast the fast-growing “emerging economies” of China and India with the rich world, the gap in the first decade of the 21<sup>st</sup> century is greater than it was around 1850. To keep to the comparison from the 1850s, consider the GDP per capita of the United Kingdom (not any longer the richest country in the world) against GDPs per capita of India and China (among the fastest growing economies in the last two decades)—all GDPs adjusted for the differential price levels between the countries. The gap between UK and India in 2009 is in excess of 10 to 1 while it was only 5 to 1 in the mid-19<sup>th</sup> century;<sup>12</sup> the gap between UK and China is 5 to 1 today while in 1850 it was (as we have seen above) less than 4 to 1.<sup>13</sup>

Indeed, the number of countries today is much greater than it was some 160 years ago, and it may seem that this factor alone would lead us to conclude that inter-country income differences, and the gap between the top and the bottom, must have widened anyway. But the widening is not an artifact of the number of countries. We can see this if we limit our observations to the same 63 countries as included by Maddison in 1870,<sup>14</sup> and whose populations

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<sup>11</sup> In 1990 international prices. We leave out some outliers, small oil-producing economies and Luxemburg, with even higher incomes.

<sup>12</sup> Maddison does not give GDP per capita estimate for India in 1850, so we use the next proximate year (1870). It is believed that Indian GDP per capita was stagnant throughout much of the 19<sup>th</sup> century, so the exact year should make little difference.

<sup>13</sup> Data from World Bank *World Development Indicators*, year 2009, expressed in 2005 PPPs.

<sup>14</sup> The number of countries included by Maddison in 1850 (twenty-four) is too small for a valid comparison.

today accounts for some 5 billion people. In 1870, the gap between the richest countries (Australia and Great Britain) and the poorest (Nepal and Ghana) was 8 to 1; in 2007, it is 31 to 1 (United States and Norway vs. Nepal, North Korea and Ghana).

Moreover, the very logic of widening income disparities alluded to before shows that the effect of the number of countries cannot be decisive. Because the logic is that some people, living in specific geographical locations, earn today approximately the same—very low--level of income as their ancestors did more than a century and a half ago, while other people, at other locations, live at income levels that are manifold greater than in the past and some 100 times above the subsistence. Thus, the ratio between top and bottom must rise, almost regardless of how we decide to “slice” the population of the world (that is, in how many countries they live).<sup>15</sup>

We obtain the same conclusion if we compare real wages in rich and poor countries. Table 1 shows wages for three occupations in five selected countries (or rather their major cities): two rich (London and New York) and three poor (Beijing, Delhi and Nairobi). The data refer to after-tax nominal wages which are then deflated by the food cost of living in the same cities to obtain real food wages. The advantage of these data, collected for 74 cities and 14 occupations and published by Union de Banques Suisses, UBS (2009), is their almost full comparability. In effect, the wage data refer to net wages earned by the same, very narrowly defined, professions (see Notes to Table 1); they are adjusted for the effective number of hours worked, and are geographically limited to large cities for which UBS publication also calculates a food cost of living index.

In Table 1, I have selected three occupations with increasing level of skills: building laborer, skilled industrial worker, and engineer. The real wage gaps are the greatest in the case of unskilled workers: for them, the ratio of real wages in rich and poor countries is almost 11 to 1.

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<sup>15</sup> The caveat “almost” is necessary because in the extreme case, when the world population were divided into (say) two countries and in such a way that each half would contain the same proportion of locations that have not seen any progress since 1850 and locations that are today much richer, the gap between these two halves need not be greater, and may be smaller, than it was in 1850. But obviously, this is an extreme case which has nothing in common with the real processes of state-formation and real state of affairs both now and in the past.

For the skilled industrial workers and engineers, the gaps are respectively 5.8 to 1 and 3.3 to 1.<sup>16</sup> If we contrast this result with the estimates of the ratio between wheat wages of English and Indian unskilled laborers around 1850 (Broadberry and Gupta, 2006, quoted above), we note that the UK/India unskilled wage gap has increased from around 3.3 to 1 in 1850 to more than 9 to 1 today. The advantage of this particular comparison is that it keeps the level of skills constant across time, and focuses on the very low skills representative of those who are at the bottom of the income pyramid.

It is the gap between the poorest members of rich and poor societies that we found to be the widest, both in income and wage data. Or, to translate this finding in terms of political economy, the commonality of interests between the poor and unskilled workers in the rich world and the poor and unskilled workers in the poor world is hard to detect if we focus on their economic conditions only. This is of course a major departure from a situation which existed a century and a half ago.

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<sup>16</sup> A decreasing rich-poor country wage gap with greater skills of workers is also found by Warner (2002). Warner attributes it to greater global competition which exists for more skilled workers whose wages reflect international conditions while the wages of low-skilled workers behave like non-tradables. It can also be explained by greater relative scarcity of more skilled workers in poorer countries.

Table 1. Nominal and real (food) hourly wages for several occupations  
Annual after-tax wage divided by the number of effective annual hours of work, March 2009

	Building laborer 1/		Skilled industrial worker 2/		Engineer 3/	
	Nominal after tax wage (in \$)	Real food wage	Nominal after tax wage (in \$)	Real food wage	Nominal after tax wage (in \$)	Real food wage
New York	16.6	16.6	29.0	29.0	26.5	26.5
London	9.7	15.4	19.0	30.4	22.1	35.2
Beijing	0.8	1.3	2.3	3.8	5.8	9.5
Delhi	0.5	1.7	2.1	6.9	2.9	9.1
Nairobi	0.6	1.5	2.0	4.7	4.0	9.2
Rich vs. poor (unweighted ratio) 4/	20.4	10.9	11.0	5.8	5.8	3.3

Note: Food prices are estimated from a basket of 39 food products with weights reflecting West European consumption patterns. New York food prices are set equal to 1. Real food wage (in New York food prices) is estimated by dividing the nominal after-tax dollar wage by the food price index (not shown here). Annual number of hours worked is equal to the weekly number of hours of work given for each profession and country separately (UBS, 2009, pp. 34-35) multiplied by 52 weeks, and reduced for the number of official and paid vacation days per year for each country (UBS, 2009, p. 30).

1/ Unskilled or semi-skilled laborer, about 25 years of age, single.

2/ Skilled worker with vocational training and about 10 years of experience, working in a large company in the metal working industry, approximately 35 years of age, married, two children.

3/ Employed in an industrial firm in the electrical engineering sector, university or technical college graduate with at least 5 years of experience, about 35 years of age, married, two children.

4/ Rich are New York and London; poor are Beijing, Delhi and Nairobi.

### 3. From “permanent revolution” to “fortresses Europe and America”

The fact that the position of the poorest members of different societies is vastly different--the fact, for example, that the poorest 5% of Americans, adjusted for price levels, earn 35 times more than the poorest Zambians or 12 times more than the poorest Malians—has global political implications. We have seen above that the entire construct of workers’ (poorest people) solidarity was based on some objective conditions, that is on similarity in their living conditions. But if that similarity in living and working conditions has evaporated, would not the commonality of interests and “class solidarity” similarly vanish? And indeed it is not easy to find any examples of shared interests between the poorest classes in rich countries and poorest classes in poor countries. More likely, their interests conflict.

A second implication of the world where location determines to a large extent one’s income is that it must be a world of huge migratory pressures because people can increase their incomes severalfold if they migrate from a low mean-income location to a high mean-income location. Only if knowledge of these income differences could be somehow hidden, and not widely-shared, could we expect that people would not want to migrate. But this is most patently not so in the era of globalization, instant communication, and broad access to TV, movies and Internet.

These two factors thus shape the key global political issues. While in the years between the heady days of the pan-European “Springtime of peoples” in 1848, and probably the second-half of the 20<sup>th</sup> century, the conflict between capital and labor was the main political issue that influenced several generations of thinkers, politicians, social activists, and ordinary people, this is no longer the case today. Globally, the issue has receded in importance as the objective conditions that gave rise to it have changed. This was already even if dimly becoming apparent in the last decades of the 19<sup>th</sup> century when the term “workers’ aristocracy”, denoting this divergence of living conditions among the “exploited” classes internationally, was coined. To quote Engels again—but now ten years after *The Communist Manifesto*: “...the English proletariat is actually becoming more and more bourgeois.”<sup>17</sup>

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<sup>17</sup> In a letter to Marx in 1858, *Marx and Engels: Selected Correspondence*, p. 132. See also Hobsbawm (1996, pp. 224-229).

This somewhat derogatory term reflected a real process of betterment of the standard of living among the working classes in the most advanced capitalist countries, or if one prefers, their “embourgeoisement”. The process continued, and accelerated, most famously during the “Glorious Thirty” years of almost uninterrupted and widely shared economic growth in Western Europe and the United States. In the second half of the 20<sup>th</sup> century, the prospect of permanent revolution, that is of a worldwide revolution that would bring working classes’ parties to power—a prospect so eagerly called forth by Trotsky in the 1920s, became clearly unrealistic. The bourgeoisies of the western world needed no longer fear proletarian revolutions spreading from one country to another. The fact that in 1968, during another pan-European uprising, superficially similar to that 120 years earlier, workers’ organizations in the most “revolutionary” country (France) were the last to join the protest, unable to formulate any coherent demands, and in fact never made any moves towards the abolition of capitalist relations of production, showed very clearly that the times had changed. The specter of Communism, eloquently evoked by Marx and Engels in the opening sentences of the *Communist Manifesto*, was exorcised.

The new problem which is likely to dominate the present century is different: it is the problem of uneven development between the countries and, associated with it, the pressure of migration emanating from poor countries. It is no less complicated problem than the earlier one, and involves similar fears of loss of power and income among those who are richer. It is a problem born out of importance of location for one’s lifetime earnings no less than the earlier fear of Communist revolution was born out of income differences between the social classes within the same societies.

#### 4. The key policy issue in this century: Better living standards for the poor people of the world

The specter of Communism disappeared because poor people in what are today rich and upper middle income countries have experienced substantial and sustained increases in their real levels of incomes. Analogously, the problem of migration will disappear, or become manageable—in the sense that migration will be just a result of people’s preferences (e.g. those who prefer to live in a warmer country may relocate there, as is broadly the case today among the group of rich European countries) and not a problem of massive exodus, prompted by large gains in real income—only when differences in mean incomes between countries become much smaller. This implies that the best “solution” to the problem of massive, economically-motivated migration lies in the accelerated development of the poorest countries of the world and that it is also in the well-understood (self-enlightened) interest of rich nations to help this process by increased aid and economic benefits given to the poor countries. The self-enlightened interest should be particularly obvious in the case of countries that have problems managing large migration flows whether because of economic reasons (possible downward pressure on wages) or social reasons (difficulty of accepting a different style of life or a different system of values brought in by the migrants).

But the development of many poor parts of the globe, even if it were more successful than during the last 60 years, would still take a long time to bring their average incomes to anything close to the incomes in the rich world. Thus migration will remain, by its sheer human importance, the key mechanism whereby incomes of the poor people in the world are to be raised. Faster development of poor countries and migration are two complementary, and in many ways very similar, mechanisms. In both cases, the end result is increase in income of the poor. In one case, the increase is achieved in the place where they live now; in the other case, it necessitates their movement to a different locale.<sup>18</sup> The process moreover is hardly new: in terms of relative importance, migration was much more significant at the end of the 19<sup>th</sup> century

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<sup>18</sup> The same point is argued by Pritchett (2006, Chapter III in particular).

and early 20<sup>th</sup> century than it is today.<sup>19</sup> Not because the demand for migration is less today but because the impediments are greater.

Impediments to migration pose one methodological issue for economic theory, a point raised by Edwin Cannan almost a century ago, in his discussion of Adam Smith's "invisible hand". Cannan asked "if...indeed, it [is] true that there is a natural coincidence between self-interest and the general good, why...does not this coincidence extend, as economic processes do, across national borders [?]"<sup>20</sup> Smith's argument of "invisible hand" is general and cannot depend on arbitrary lines such as national borders. The relocation of people ought to be beneficial to total world output and therefore to reduction of global poverty and (very likely) global inequality. Hanson (2010, p. 22) calculates that the annual flow of Mexican migrants into the United States raises *global* income by an amount equal to about 1% of American GDP. Walmsley and Walters (2006) find, using CGE simulations, that an increase in both skilled and unskilled migration equal to 3 percent of their respective labor forces in developed countries, would yield severalfold more, in net welfare gains terms, than the current development aid. Migration restrictions are, they argue, more costly than the existing restrictions on trade. In a recent study of the effects of migration in Spain, Bruquetas Callejo and Moreno Fuentes (2011) find that the immigration surge that has, in less than two decades, transformed the country from an emigrant nation to one where foreigners account for 12% of the resident population, has benefited Spain.<sup>21</sup>

Pritchett (2006, p.95) criticizes economists who, while acknowledging that both trade and migration are welfare-enhancing, tend to treat them very differently. They argue for trade liberalization on general welfare grounds, and then, in a second step, address income distribution concerns of those who are affected through redistribution. But they never use the same approach

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<sup>19</sup> Pritchett (2006, p.69) estimates that the net flows (relative to population) are today between 1/2 and 1/5 of what they were in the period 1870-1910.

<sup>20</sup> Cannan's question is quoted from Frenkel (1942, p. 177), I am grateful to Tony Atkinson for bringing to my attention this undeservedly obscure reference.

<sup>21</sup> See also the article "Inmigracion: Espaa sale ganando", *El Pais*, 23 May 2011, available at [http://www.elpais.com/articulo/opinion/Inmigracion/Espana/sale/ganando/elpepiopi/20110523elpepiopi\\_10/Tes](http://www.elpais.com/articulo/opinion/Inmigracion/Espana/sale/ganando/elpepiopi/20110523elpepiopi_10/Tes)

when it comes to migration: the equivalence would imply being in favor of migration as a default position, and mitigating its negative effects through specific additional policies.

That from the global perspective migration should be desirable leaves very little doubt, even when we think of it using the simplest economic principles: if people are allowed to move where they think they would do better, it is very likely that total output would increase compared to the situation when people are not allowed to move. For if the reverse were the case, impediments to migration similar to the ones that currently exist at the international level would be found useful and imposed at the national level as well. As Frenkel (1942, p. 183) writes, “The movement of men and women from areas where they are poverty-stricken to areas where they can make their full contribution to the world’s income stream is of advantage to all”.

While the desirability of both increased aid and greater migration may be established in principle and for the world as a whole, it does not mean that it would be to the advantage of each particular country, or particular sections of population in each country. Greater migration may be associated with reduced wages or increased unemployment for the groups of people whose skills are most similar to the skills of migrants. Thus even if for the recipient country as a whole migration is advantageous, sufficiently powerful economic and political groups may be able to block it or impose tough limits on it. Yet, as nicely put by Hanson (2010, p. 22), “in considering the migration rights that maximize global welfare, one could not argue that US workers be weighted more heavily than both richer [US] employers *and* poorer migrants”. Again, going back to the first principles, we can either treat every person in the world as equally important, or we can put a greater weight on the welfare of poorer individuals because of diminishing marginal utility of income but we cannot (logically) pick and choose one group as such in preference to others.

Perhaps more importantly, greater migration faces non-economic obstacles that can be vaguely described as belonging to the area of social acceptance of migrants and their effects on domestic culture. These issues have been exacerbated by the current economic crisis and the unexpectedly great difficulties that many European countries have had in “absorbing” migrants, particularly those with Islamic background. Thus, in a close succession, both British and German Prime Ministers have declared the “multiculturalist” model, which was supposed to be Europe’s answer to migration, to have failed. Angela Merkel, moreover, pronounced such a model unambiguously “dead”. These problems hold particular poignancy for Europe because it is, due

to its low fertility rates, much more in need of migrants than the United States. Moreover, in its southern fringes, Europe is surrounded by countries whose demographic profiles are exactly the opposite of the European: these are countries with a very large share of young population and relatively few older people. Were it not mostly for non-economic reasons, the demographic match between the two shores of the Mediterranean would seem almost perfect. However, Europe which has, at least since the end of the 15<sup>th</sup> century, “exported” its people elsewhere has a serious difficulty viewing itself as an immigrant continent and accepting migrants who mostly come from the areas that were formerly colonized by the Europeans. This reversal of migration flows seems politically difficult to manage.

From the facts that (i) most of today’s global income inequality is due to differences in mean incomes between the countries, (ii) in an era of globalization such differences are well-known to people in poor countries, and (iii) the costs of moving from one place to another are not prohibitive, it follows that migration, in the absence of significant acceleration of growth in poor countries, will be a great 21<sup>st</sup> century mechanism of “adjustment”. It will be driven by the self-interest of individuals but its ultimate result would be a reduction in global inequality and global poverty. Aid and migration ought to be regarded as two complementary means for achieving these goals. Policy makers in developed countries shall come to realize that either poor people will become richer in their own countries or they will migrate to the rich countries.

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