Borders in the global economy

Control of labour, mobility of goods and capital, preservation of profits and exacerbation of inequalities

Globalisation and mobility: some history

When Adam Smith (1723-1790) was writing his "Wealth of Nations" (1776) and David Ricardo (1772-1823) was developing the theory of comparative advantage in his "On the Principles of Political Economy and Taxation", globalisation was mainly characterised by mobility of commodities. Net UK exports were multiplied 100 times between the beginning of the18th century and the beginning of the 20th century, while profits from trade were multiplied by 60 [read]. In Ricardo's classical model, capital and technologies were basically fixed, hence a static vision of the world economy characterised by national trade advantages that seemed immutable, protected as they were behind solid borders and huge distances, given the state of land as well as maritime transport[1], and because production was strongly impacted by prevailing natural conditions.

With the creation of GATT[2] in 1948 and of WTO[3] in 1995, international trade entered a period of extraordinary expansion that took place at a rate much higher than world economic growth, but during the first half of the 80s. Between 1948 and 2013, the volume of international trade was multiplied by 300!

It is only by the 60s and 70s that liberalisation of financial capital flows actually took place. According to the IMF[4] it is the pursuit of more efficiency, diversification and security that is the main justification for this change. It is however important to be aware that liberalisation was also a marvelous opportunity for the richest people to escape fiscal pressure and economic regulations imposed by governments in order to increase their net profits [read on p.2] and for corporations to conquer new markets.

The increase of Foreign Direct Investment (FDI) flows was spectacular after 1997, increasing from $690 billion to $1,387 billion in 2000, then $1,538 billion in 2007 and finally $1,750 in 2017. This growth benefitted from the revolution that took place in information and communication technologies. This change brought a progressive homogenisation of technologies used in many sectors and a relocation of a large number of economic activities to countries where wages were kept low and fiscal conditions designed to be favourable to investors (Asia, America and North Africa). It also allowed multinational corporations to increase rapidly their economic weight [read p. 4].

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[1] At the end of the 19th century, more than one month of navigation was still required to travel from Europe to India and ten days to go to America.

[2] GATT : General agreement on tariffs and trade.

[3] WTO : World Trade Organization.

[4] IMF : International Monetary Fund.

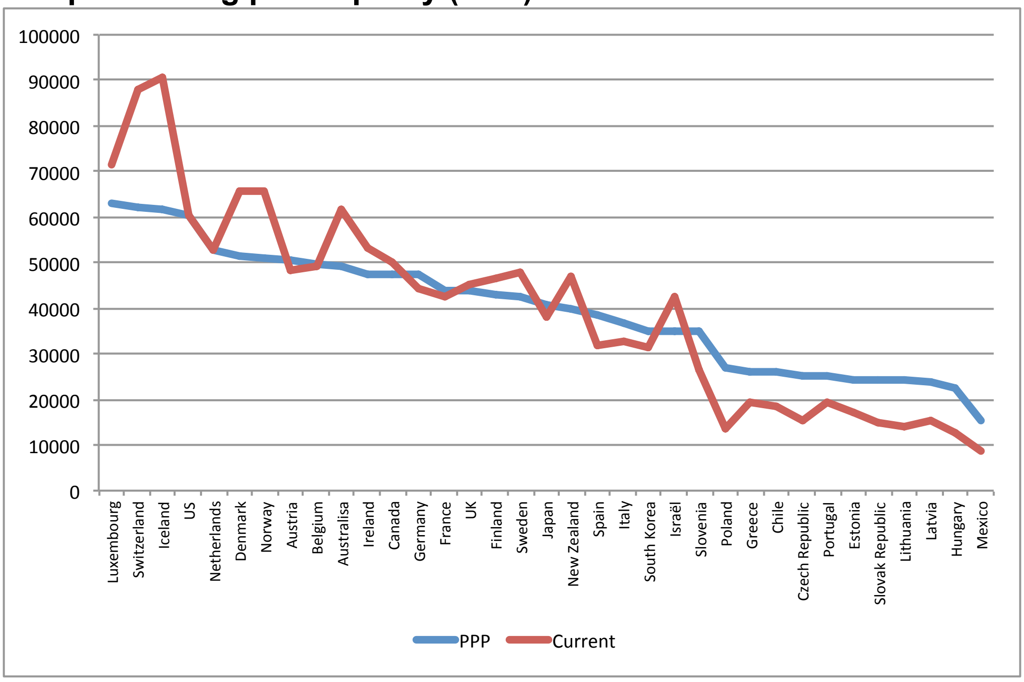
The historical evolution was therefore one of a liberalisation of first international trade of commodities and then of capital flows. Only the mobility of labour has, so far, not been liberalised. One may legitimately wonder why?

Wage inequality in the world

One of the reasons that can be given to explain why countries have been reluctant to liberalise population flows by removing barriers to movements of labour is the profit that transnational corporations are gaining from huge wage differences existing currently in the world.

According to the OECD - often presented as the rich countries' club -, average nominal salaries in its member countries in 2017 varied from simple to nine-fold (from one to seven when salaries are expressed in purchasing power parity[5]) - (See **Figure 1**).

Figure 1: Average yearly salaries for 2017 in current dollars or in terms of purchasing power parity (PPP) in OECD member countries



Source: OECD

Disparities observed in the average yearly salary could be explained at least in part by differences in the structure of the economy of countries analysed (e.g. relative importance of sectors where productivity of labour is more or less high, or proportion of qualified labour). A comparison of salaries for corresponding jobs helps to avoid this bias.
Data used to make these comparisons are however relatively old. They nevertheless illustrate striking inequalities as shown in **Table 1**, even though these numbers could be criticized as not being perfectly comparable in particular because of the variability of the

[5] Purchasing Power Parity (PPP) is a rate of currency conversion that equalizes the purchasing power of different currencies by eliminating the differences in price levels between countries. In their simplest form, PPPs are simply price relatives that show the ratio of the prices in national currencies of the same good or service in different countries. PPPs are also calculated for product groups and for each of the various levels of aggregation up to and including GDP (OECD).

cost of living from one country to another, usually higher in richer countries than in poor ones, as suggested by the crossing of curves in **Figure 1**.

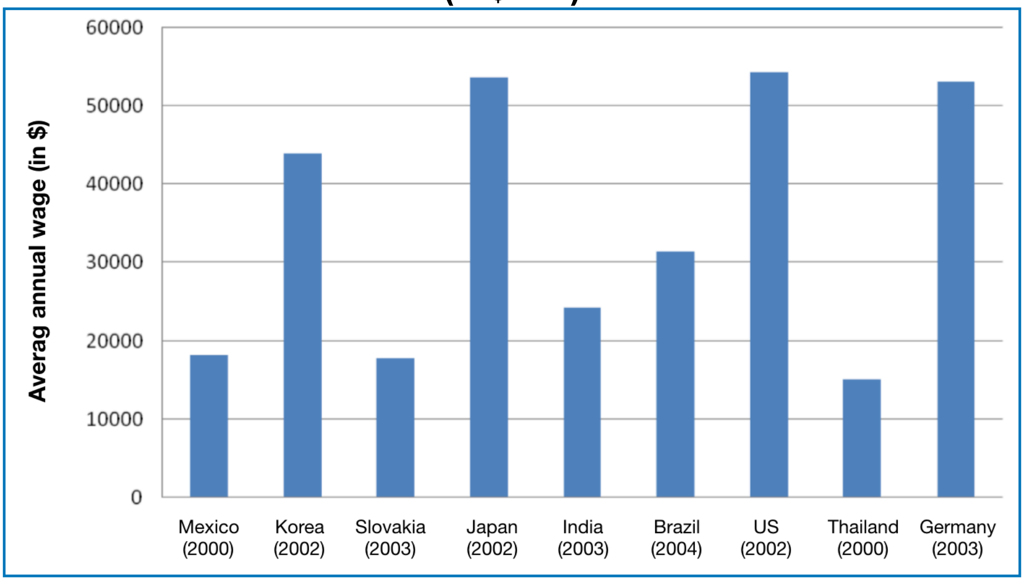
Table 1: Comparing across selected countries of average salaries in some lines of activity (in current dollars)

	China (2005)	Brazil (2003)	United States (2005)	Mexico (2002)
Pilot	761	1913	4206	2529
Engineer	252	1481	4710	1081
Miner	145	295	2694	368
Carpenter	127	188	2460	435
Car mechanic	122	239	2526	401
Computer programmer	252	1240	4141	886
Garment cutter			1660	255

Source : www.worldsalaries.org

In order to avoid this shortcoming, T. Kerswell[6] compares, in his thesis, wages expressed in purchasing power parity dollars ($PPP) for the automobile industry. Thus, he eliminates the cost of living effect and shows considerable differences between rich countries and poor and emerging countries (see **Figure 2** below). Similarly, he analyses average wages in the garment industry and finds, in that case too, large differences, the average wage in Germany being more than 5 times that observed in India (in $PPP) for 2003.

Figure 2 - Average annual wage in the automobile industry for selected countries (in $PPP)



Source: Kerswell, 2011.

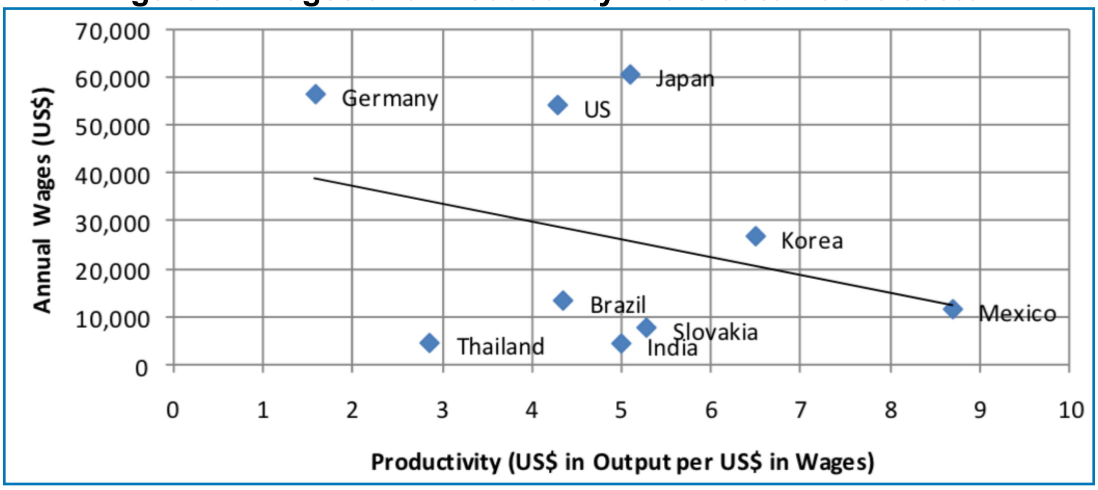
[6] Kerswell, T. J., The Global Division of Labour and the Division in Global Labour, PhD Thesis, Queensland University of Technology: School of Humanities and Human Services, 2011.

More recent data from ILO[7] (expressed in current dollars) show that the average wage varied from less than $100 per month in Bangladesh and Cambodia, to more than $250 in China and more than $1,000 in South Korea, for 2014. For the sake of comparison, the minimum monthly salary in France in the garment industry was fixed for 2018 between $1,700 and $1,900 for employees, between $2,000 and $2,500 for work supervisors, and between $3,700 and $3,900 for executives (FNH).

It is intuitive that one can hardly justify wage differences observed in this table and in the graph above by differences in the levels of labour productivity. Is productivity of a US pilot really 5 times higher than that of a Chinese pilot? Or is productivity of a US programmer almost 5 times that of a Mexican programmer and more than 15 times that of a Chinese programmer?

Kerswell shows in his thesis that productivity expressed in dollars of value added by dollar spend on wages[8] (a well chosen indicator from the point of view of stockholders) does not justify the wage differences observed. Surprisingly, when this indicator is chosen, Mexico performs highest, Germany being last (see **Figure 3**). If in addition to wages, one were to take into account social contributions paid by employers, it is certain that poor countries would even appear to be more productive relatively to countries where the social system is more developed.

Figure 3 : Wages and Productivity in the automobile sector



Source: Kerswell, 2011.

However, the difference among countries is not just limited to financial aspects. It also concerns working conditions, in particular the duration of work which is much longer in poor and emerging countries than in rich countries. This is what Kerswell finds in his work and it is confirmed by OECD data that show a large variation of the working time among countries (all sectors included): the number of hours worked by worker varies from 1,356 hours in Germany to 2,257 hours in Mexico (+66%), the duration being 1,514 hours in France, 1,676 hours in Australia and 1,780 hours in the US. This duration tends to

[7] ILO : International Labour Organization, Wages and working hours in the textiles, clothing, leather and footwear industries, 2014.

[8] Defined as basic wages, cost-of-living allowances and other guaranteed and regularly paid allowances, but excluding overtime payments, bonuses and gratuities, family allowances and other social security payments made by employers.

decrease over the years[9]. In Eastern Asia countries, known to work more, the average working time is around 2,300 hours in the year.

Therefore, inequality in work is quite real, even if it has a tendency to decrease, at least as far as salary is concerned for some countries[10]. The causes for this inequality is, most obviously, the artificial segmentation of the "labour market" resulting from the non mobility of labour due to immigration laws and the borders on which they rest, with the view to block migration from poor to rich countries[11].

The most common argument in favour of maintaining a strict border control is that opening borders would mean a huge flow of workers towards rich countries, in particular towards Europe coming from Africa. European Union experience however shows that the dismantling of its internal borders implied neither massive population migrations towards the richest countries in the Union, nor a rapid convergence of salaries among Union member countries, a change that would have been in conformity with the models proposed by neoclassical economic theory (see **Box 1**)

Box 1- Minimum legal salary in the European Union

22 out of the 28 countries of the EU have a minimum legal salary.

The level of that salary varies from a minimum of 260.8 euros in Bulgaria to a maximum of 1,998.6 euros in Luxembourg. France is ranked 5th with 1,498.5 euros and the UK 7th with 1,462.6 euros. Member countries from Eastern and Central Europe have a minimum salary of less than 502 euros, but Slovenia (842 euros). These countries have seen salary increases between 2010 and 2018 (between 12.3% for Croatia and 177.8% for Romania. There is some catching up, but it is quite slow.

based on Eurofound (2018), Statutory minimum wages 2018, Publications Office of the European Union, Luxembourg.

This suggests that there must be other constraints to labour migration than just borders [read], even though they play an important role as an obstacle to population movements.

Border however have other important roles to play that explain why they have been kept for more than a century, in addition to segmenting the labour force between rich countries, on the one hand, and labour force of poor countries, on the other, in order to preserve wage differences described earlier. Borders also segment labour forces living in poor countries and makes them compete with each other. Moreover, borders delineate

[9] Bouvier, G. and F. Diallo, Sixty years of working-time reduction across the world, division Synthèses des biens et services, INSEE, 2010.

[10] For example, according to the National Bureau of Statistics of China, the average salary of employees (senior managers excluded) increased by nearly 17% between 2012 and 2016. According China's Ministry of Human Resources and Social Security the average salary was multiplied by 2.5 between 2008 and 2017 and it increased by nearly 8% between 2016 and 2017. OECD data on working time also shows a reducing trend for all countries for which statistics are available.

[11] General border control is a relatively recent policy that dates back basically to the First World War, time when passports were used mainly in order to stop movements of what was then called the "dangerous classes". It is worth noting that passeports were initially introduced by 16th century Prussia to stop emigration of peasants and that it was later generalised in order stop persons trying to escape from conscription during the First World War.

territories within which political and social power relations can be expressed in a way specific to each country and thus determine the wage level there (see below). This double segmentation (rich/poor and poor/poor) keeps a great part of the world population in poverty - at least in relative poverty, if not absolute poverty - and it is the source of the enormous profits made by transnational corporations; it also is instrumental in the transfer of value from poor countries toward rich countries.

Consequences of wage inequality in the world

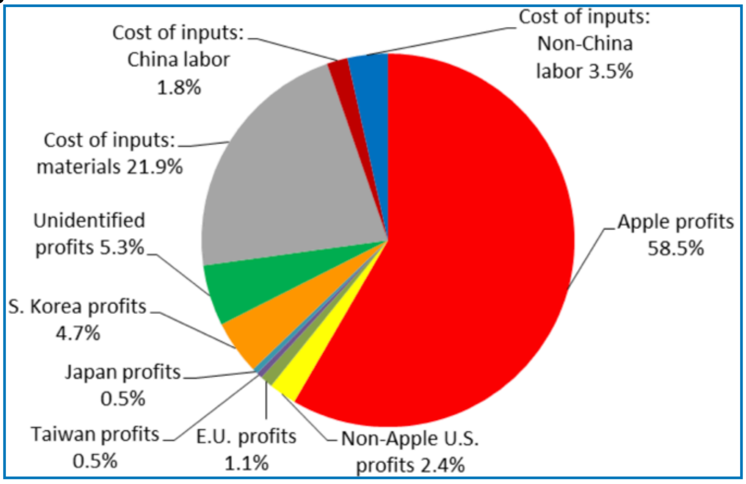
Let's see what are the consequences of the segmentation of the world labour force and the wage inequality it produces.

Huge profits

One consequence of wage inequality is the outrageous level of profits made by multinationals operating in global value chains. According to Forbes 2018 Ranking, Apple is the company with the largest annual profit in 2017, $53.3 billion (total sales amounted to $247.5 billion). Facebook made $17.8 billion profit (total sales: $44.6 billion). Compared to these two giants, Airbus made "only" $3 billion profit (total sales: $74.7 billion).

These profits are made possible by an incredibly unequal distribution of value generated by global value chains. For example, an analysis of the distribution of value in the case of an iPhone in 2010 shows that Apple grabs 58.5% of the value of this good, while the share of the value going to labour was only of 5,3%, of which 1.8% went to remunerate the work required for assembling iPhones in China[12] (see **Figure 4**).

Figure 4: Distribution of the value of an iPhone in 2010



Source : Kraemer, Linden et Dedrick, 2011

Exacerbation of inequalities

While World Bank statistics indicate a decrease of absolute poverty in the world, inequalities, on the contrary, whether income or wealth inequalities, have been increasing in almost all countries.This is a consequence of the fact that the richer population categories have grabbed most of the benefits of growth: for example, the top 1% richest

[12] Kraemer, K.L., Linden, G. and J. Dedrick, Capturing Value in Global Networks: Apple's iPad and iPhone, University of California, Irvine, University of California, Berkeley and Syracuse University, 2011.

people captured *twice as much* benefits of growth as the 50% poorest. This explains why the top 1% richest people control now more than 20% of global income, while the 50% poorest ones get less than 10% of the income generated every year [read]. Since 1980, the middle classes of the richest countries (the US and Europe, in particular) have seen their income per person grow slowest (less than 50% in 35 years); this explains at least in part rejection of globalisation by this group, a rejection that has translated, among other things, into a strong progression of nationalism and xenophobia.

At the same time, the income gap between people in rich countries and those living in poor countries has almost been multiplied by three, according to World Bank data [read]. Even the IFM was worried about this situation back in 2014 [read] and still is nowadays as illustrated by recent statements made by its managing director.

Further research showed that not only is Africa the poorest continent despite economic growth observed for several years - but a very unequal one -, but also it continues to be plundered as illustrated by the balance of incoming and outgoing financial flows in Africa. This balance shows that every year several tens of billion dollars are extracted from the continent and transferred to other parts of the world [read].

Transfer of value

Beyond gigantic profits made by transnational corporations based in rich countries and the financial flows going from poor to rich countries, inequality that characterises international trade implies huge transfers of value from poor and emerging countries towards rich countries. Unfortunately, these transfers are not captured by statistics. This process was brought to light by economists Arghiri Emmanuel in his thesis and book on the unequal exchange, in 1969, and Samir Amin in his book “Unequal Development: An Essay on the Social Formations of Peripheral Capitalism” published in 1973, among others.

The concept is quite simple. The wage does not constitute the “price” of the “labour” commodity as is the case for any commodity which, in a liberalised market economy, is determined by the balance between supply and demand. It is a “price” that is the result of political and social power relations. If it were not, how could the fact that wages paid to women are systematically lower to those paid to men for the same job or that the wages paid to black workers in *apartheid* South Africa were lower than those for white workers for the same task, be explained?

In rich countries, the history of social conflicts has led to a system of social rules, norms and agreements that determine salaries and fix, in particular, minimum legal salaries the evolution of which depends on negotiated mechanisms agreed by trade unions, employer organisations, often under the auspices of governments.

In poor countries, history produced very different systems: the minimum salary, if it exists is much lower than what would be required for a decent living - what some have defined as the vital salary[13] - and in many countries this minimum salary is not respected, neither are respected social norms developed at the international level in the framework of ILO, despite the fact that most countries have agreed to them officially. In these countries, trade unions are most often just tolerated, when they exist, and if ever governments wanted to adopt more favourable economic and social policies for workers, experience shows that

[13] Ethical Trade Initiative, A living wage for workers et Article 23, paragraph 3 of the UN Universal Declaration of Human Rights, 1948.

they often end up by being overthrown, sometimes at the instigation of foreign political or economic powers [read]. It is clear from this that wage inequality plays a critical role in the international order within which we live.

The low level of wages is also a consequence of the fact that trade and investment liberalisation has brought two additional billion people on the "labour market", making them compete with each other. For these persons, a formal job, even badly paid, is almost a luxury in the face of the precarious situation prevailing in the informal sector. This has implied a fierce competition among poor countries in order to attract foreign investors with the hope to create jobs. Competition has become more intense, despite the creation of the Group of 77 in 1964, during the UNCTAD[14] conference, a Group that very rapidly proved to be incapable of preserving unity among countries with very diverse and sometimes contradictory interests whose divide was encouraged by economic and political powers to whom it benefits[15]. Competition among poor countries resulted in very harsh working conditions and considerable benefits provided by countries to investors (infrastructure, tax holidays, free repatriation of profits, minimal social laws, etc.).

Back to our discussion: low wages in poor countries means that when in a rich country - say the UK - a consumer buys say a shirt produced in Bangladesh or Cambodia, he obtains a good for which he does not pay the "right price"[16] because workers who produced it there were underpaid. The difference between the right price and the actual price corresponds therefore to a transfer of value from the poor (producing) to the rich (consuming) country. This transfer occurs because of the power relations underlying the global economic system imposed with the help of borders and different types of pressures exerted on the poor country leaders (threats or gratifications)[17]. This process has been of extreme importance in the garment and textile sector and is also quite relevant to other goods such as, for example, automobiles and automobile parts, footwear, toys as well as electronics and domestic whitegoods.

Recently, economists tried to update estimates of this transfer that had been computed in the 70s and came up with the enormous figure of $1460 billion per year (i.e. ten time Official Development Assistance). According to other economists, this amount would only be an underestimate of the transfer and it is increasing as productivity increases in poor countries. This is clearly a domain that would need more research and estimates.

It is worth noting here that under-development theories dating back to the 60s and 70s appeared to be obsolete or irrelevant to many during the 80s and 90s which were the

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[14] UNCTAD: United Nations Conference on Trade And Development.

[15] For a probably excessively optimistic presentation of the role of the Group of 77, read The Group of 77 at Fifty, UN Chronicle, 2014.

[16] A right price of a product is a price reflecting a remuneration of all the factors used for its production at a rate that would be the same throughout the world. Let's note here that, according to Arghiri Emmanuel's computations, such a "global" wage if it existed some time in the future would imply a substantial reduction of in the income of workers living in rich countries, which, according to him, creates a divide and an antagonism between workers in rich countries that those living in poor countries, something which is, for him, a characteristic of our global economic system (Emmanuel, 1969).

[17] Relocation of some industries implied a reduction of price of a great share of consumer goods, a process, which explains an important proportion of the increase of purchasing power of consumers in rich countries in recent decades. [read]

period of glory for neoliberalism when the illusion of world development dominated for some time. However, in the face of today's reality and its aggravated inequalities, the neoliberal approach to development is increasingly being challenged and temporarily discarded theory are gaining momentum.

Political regime

One last consequence mentioned here is the very nature of political regimes in place in poor countries. For long, poor countries have, in their majority, been ruled by non-democratic regimes, sometimes by the military, that had inherited the predatory nature of the colonial regime. Over the last two decades, many of these regimes have adopted a democratic appearance while not changing their fundamental nature. However, it has to be admitted that this is a quite imperfect type of democracy that had led, in some countries, to rulers remaining in power for decades and to series of elections characterised by massive election-rigging, purchase of votes and frequent intimidation and violence. The result has been that power remains - except in a small number of exceptions - in the hands of a small national elite that benefits more or less directly from preserving a social and economic system that leads to the underpayment of local in their country.

Conclusion

At the start of this paper, we were wondering why, after the liberalisation of commodity trade and capital movements, labour movements were not also liberalised?

The answer is now quite clear. The reason for this is that the confinement of the labour force behind borders is instrumental for underpaying an enormous mass of workers throughout the world and thus generate huge profits and consolidate spatial inequalities.

There are too many different interest that explain why borders are well in place in the global landscape: transnational corporations want to preserve jealously their profits, consumers in rich countries want to maintain their standard of living, national elites in poor countries want to continue benefitting individually from the crumbs of a system that penalises the majority of the people of the country they lead.

It is relevant to worry with the IFM - with some irony - about this situation that, if it continues, will produce even more inequality through what J. Hickle calls the inequality machine, an inequality, as it grows, that will increasingly become a potential source of conflict. What will happen when the economic power balance will swing from western countries to China? Can Europe continue to dream, as it was dreaming in Valletta in 2014, and believe it is an impregnable and privileged citadel? Will a wall be sufficient to stop the flow of refugees to the US? More importantly, is it possible to imagine a world of inequality able to be mobilised in a united way to combat climate change? Just listen to discussions at successive climate Conference of parties or to the people demonstrating in French streets as this paper is being written, and you will know that there will be no combat for the environnement or against climate change without addressing *simultaneously* the issue of inequality.

We have already seen that removing borders would not solve the problem, if we consider the EU experience. Moreover, it would not be politically feasible given the current progression of nationalistic and xenophobic movements in rich countries.

Combatting against inequality and for social and economic justice is not just a slogan to be proclaimed with complacency at the podium of international meetings, conferences and summits. It is an absolute necessity if we do not want our world to become like the future described in the darkest fictions. For this, an in-depth transformation will be necessary of an economic system that opposes workers - workers of rich countries against those from poor countries, workers from these countries among themselves - based on the use of myths and sickening ideologies.

Other solutions exist, but, as already mentioned by A. Emmanuel, resources will not suffice for all to live like today's rich. Mechanisms will have to be put in motion that will uplift the standard of living of the poor, whether in poor and emerging countries or in rich countries. The other side of the coin is that the upper and middle class in rich countries and the rich in poor and merging countries will have to live with less than today and change their lifestyle. The risk then is political: if the required changes are not managed properly, they will further feed nationalistic and xenophobic movements that are progressing almost everywhere in rich countries, propelled by fear experienced by the middle and lower classes and their wish to barricade themselves against the rest of the world and take refuge in what they consider to be their immutable identity - when in reality it has continuously been evolving throughout History - while hoping to continue benefitting from the existing global economic system.

Solutions exist: a minimal income worldwide commensurate with real productivity of labour and sufficient to lead a decent living, access for all to social protection[18], to education, to health and healthy food, and a fair and progressive fiscal system capable of mobilising sufficient resources. All this is known and reminds some of the Sustainable Development Objectives. But, again, it is not sufficient to revel in fine words. They have to be taken seriously, literally, and resources required must be mobilised, sacrifices needed that hurt today must be made in order to avoid much more painful disasters tomorrow.

If tomorrow GAFA stockholders instead of sharing tens of billions of dollars were to live with some thousands - all right! let's say some tens of thousands - of dollars, they could continue to live as happily as today - may be even more - and their ecological and climatic footprint would be much less than it is now. Or will they choose to live with their children in high-security bunkers, seated on mountains of dollar bills, but without water, electricity and food? Yet, this is a possible scenario because our huge cities are so vulnerable that their inhabitants - rich or poor - are at the mercy of any social, political, economic or climatic disruption. Once that stage is reached, it will be too late to turn back.

It is true that it is unclear, today, what coalition would provide the political backing to such a profound reform of the global economic system. Neither is it clear what could be its mode of operation that would gain the support of a majority and allow the expression of everyone's needs. Political scientists, get to work! Let's be imaginative!

This has brought us far away from the borders but so close to vital issues that need to be confronted now ; this may have carried our words to a point where we may be accused to be prophets of doom. Never mind, as long as it convinces us to take action before it is too late.

Materne Maetz
(December 2018)

[18] It is estimated that less than 25% of world population benefits from some kind of social protection.

To know more:

- Alvaredo, F., *et al.*, World Inequality Report 2018 - Executive Summary, World Inequality Lab, 2017
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- Ricardo, D., On the Principles of Political Economy and Taxation, 1817.
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Selection of articles already published on hungerexplained.org and related to this topic:

- (The minimum of) What you should know about migration…, 2018
- Hickel, J., How to stop the global inequality machine, 2017.
- Growing inequalities are a threat to world social and political stability, 2017.
- Plundering Africa (Season 2), 2017.
- Sundaram, J.K. and A. Chowdhury, Growing Inequality under Global Capitalism, 2017.
- Sundaram, J.K. and A. Chowdhury, Free Trade Agreements Promote Corporate Interests, 2017.
- Is "free-tradism" agonising? Why is it increasingly difficult to enter into free trade agreements? 2016.
- Intergenerational equity: the European social model - The story of a political mistake, 2015
- Intergenerational equity is possible, provided there is a fundamental change in the principles that govern the world, 2012.