What's Fair?

Legitimacy and Distributive Justice in the Global Economy

By

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Abstract

This paper investigates the meaning and status of fairness in the international economy. We first summarize the different positions that have been taken by social philosophers on the role of the global economy in perpetuating poverty. We then review the economic evidence on the determinants of the disparities in national income levels, and the ability of the international community to change domestic institutions. In the following section a definition of fairness proposed by Franck (1995), based on procedural legitimacy and distributive justice, is introduced. These criteria are applied to the regimes and organizations which govern international trade, finance and migration. There are violations of fairness in the rules and outcomes in all these areas. One long-run consequence of the lack of fairness may be the exit of developing countries from the existing global regimes.

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1. Introduction

In 2006, the Democratic Republic of the Congo, a country with a population of approximately 57 million people, had a GDP per capita of $649. That same year, France, with a population of 60 million, recorded per capita income per capita of $28,877.[1] The ratio of the income of an average French citizen to a citizen of the African country was over 40 to 1. The same disparity can be found using data from other low-income and upper-income countries. A question immediately arises: is this disparity fair? If it is not, what is the duty of the inhabitants of the richer countries to those in the poorer?

Consider another set of countries: Ghana and South Korea. At the time of Ghana's independence in 1957, the two countries were approximately similar in terms of level of economic development. But over the next half century, Ghana's income per capita rose to $2,299 in 2006, while South Korea's increased to $20,572.[2] Was this fair? This question begs clarification: was *what* fair: the fact that Korea's income had increased so quickly? Or that Ghana's grew more slowly? If there was an element of unfairness, what was the cause?[3]

Or consider this: China has recorded increases in real per capita GDP of about 10% since 1980. During the time, GDP per capita has risen from $774 to $6,621 in 2006—an increase of almost nine times. Is this fair? Some U.S. union officials and politicians attribute China's rapid growth to its exchange rate policy and low wages, which allows it to price its goods cheaply in the U.S. and elsewhere.

Among those who have sought to answer these questions of fairness have been a number of noted philosophers, including Miller (1999), Nagel (2005), Nussbaum (2006), Pogge (2002, 2005), Rawls (2001), and Risse (2005a, 2005b, 2005c). Their responses have differed a great deal over the issue of what upper-income nations should do in response to these disparities. Nussbaum (2006), for example, maintains that "All institutions and (most) individuals should focus on the problems of the disadvantaged in each nation and regions,"[4] and more specifically, "Prosperous nations have a responsibility to give a substantial portion of their GDP to poorer nations."[5] Rawls (2001), on the other hand, proposed a more limited duty of assistance to what he called "burdened societies." The goal of the assistance is "…to help burdened societies to be able to be able to manage their own affairs reasonably and rationally…"[6] But, he added, once that goal is achieved, "…further assistance is not required, even though the well-ordered society may still be relatively poor."

Economic theory provides limited grounds to evaluate the philosophical merits of these different responses. However, economic analysis can shed some light on the reasons for the global disparity in income levels, and the effectiveness of the possible responses. A better understanding of the reasons for economic inequality can yield insights into the reasons why some nations prosper over time but others do not, and what can be done about this disparity.

Section 2 of this paper reviews some of the explanations which have appeared in the philosophical literature for global poverty. Section 3 reviews recent economic evidence on this subject. Section 4 proposes a definition of fairness, which is applied in Section 5 to the regimes in international trade, finance and migration. Section 6 presents the conclusions.

2. Sources of Poverty

Poverty and inequality have long been characteristics of the world economy. However, the differences in economic development have accelerated since the first era of globalization, 1870 to 1913. Maddison (2001) shows that the spread in per capita income between the poorest regions and the most affluent has risen from 5:1 in 1870 to 19:1 in 1998 (see Table 1). The differences in the levels of income per capita reflect differences in the growth of income in different regions over time (see Table 2).

How do philosophers who deal with global economic justice explain the sources of poverty? Many simply ignore it, and implicitly treat the relative status of nations as exogenous. But several have presented historical and economic accounts of the causes of poverty, and have drawn inferences about policies that can be enacted to reduce it.[7]

In his path breaking work a *Theory of Justice*, Rawls (1971) proposed a mechanism, which he called the "veil of ignorance," which could limit the variance in the allocation of goods that the bargainers of a domestic social contract would accept. However, he took another view when he looked at nations. In *The Law of the Peoples* (2001), Rawls wrote:

> …the causes of the wealth of a people and the forms it takes lie in their political culture and in the religious, philosophical, and moral traditions that support the basic structure of their political and social institutions, as well as in the industriousness and cooperative talents of its members, all supported by their political virtues.[8]

The "burdened societies" lack the ability to function at a level of economic activity which allows their citizens to secure the minimum levels of subsistence, shelter, health care, etc. Rawls (2001) contended that the "well-ordered" societies have a duty to assist these burdened nations. However, the duty is not a distributive one; rather, the goal of assistance, as quoted in the

Introduction, is to help these nations manage their own affairs so that they can enter what the "Society of well-ordered Peoples." The nature of the assistance that countries can extend to benefit the burdened societies is not specified.

Nussbaum (2006) criticizes Rawls for his assumption that states are equal. She writes that to "…assume a rough equality between parties is to assume something so grossly false of the world as to make the resulting theory unable to address the world's most urgent problems…"[9] She states that we need to "….acknowledge the fact that the international economic system, and the activities of multinational corporations, creates severe, disproportionate burdens for poorer nations, which cannot solve their problems by wise internal policies alone."

Nussbaum built upon Sen's pioneering contribution of the "capabilities approach" to poverty analysis (Nussbaum and Sen 1993). These capabilities are needed to achieve a life of dignity, and include bodily health and integrity, the use of the senses to imagine and reason, and the ability to form affiliations with others. Nussbaum has developed principles for a global institutional structure which would promote the provision of these capabilities for all human beings; these include the income transfers from the prosperous nations to the poor which are cited in the Introduction above.

Pogge (2002) accepts the importance of national factors in the determination of global poverty, but calls sole reliance on them to explain poverty "explanatory nationalism." He advances the claim that the global institutional order is directly responsible for the persistence and prevalence of poverty—a view that Patten (2005) calls "explanatory cosmopolitanism." Pogge (2002) specifically points to the ability of authoritarian rulers to sell their country's resources in international markets and to borrow in its name in the international capital markets as factors which promote poverty. These privileges increase the incentives to take power by force, which fosters coups and civil war, and the diversion of public monies to private pockets. Global markets, therefore, create the circumstances which promote poverty.

Risse (2005a, 2005b, 2005c) makes several responses to Pogge's claims. He points out, for example, that poverty predates contemporary economic institutions and that considerable progress has been made in the last half century to raise global welfare. He summarizes recent economic research on the domestic determinants of growth to counter Pogge's emphasis on the global economic order as the determinant of poverty.[10] He views favorably Rawls' "institutionalist stance" that the duties of the richer nations to the poor should be aimed at building institutions, and that assistance need not continue once appropriate institutions have been built.

This brief review of the philosophical literature on global justice reveals a diversity of views on the causes of poverty and the proper response. Some view poverty as a national problem which requires a domestic response, albeit with the assistance of more developed nations when domestic institutions are weak. Others hold that poverty is an international issue which requires direct global action.

There are several shortcomings that appear in these works. First, the differences among poverty, inequality and growth are sometimes obscured. Second, when an explicit reference to poverty is made, the difference between the absolute number of the poor and their relative incidence within a population is often not clear. Third, the distinctions in inequality within nations, among nations and among people on a trans-border basis are also ignored, even though these are not the same phenomena.

3. Economic Evidence

The sources of economic growth have become the subject of much empirical analysis in recent decades. Economists have sought to look beyond the yearly fluctuations of the business cycle to identify the determinants of a country's productive capacity. Barro (1997) summarizes the work that he and others have done on this topic. He includes the initial level of per capita income, human capital, government consumption and changes in the terms of trade among the determinants of the growth of real per capita income.

More recently, some economists have attempted to uncover the "deeper" determinants of economic growth which exercise their influence over long periods of time. Among the factors which have been identified as possible fundamental factors are:

- Geography. Countries in the tropic regions generally possess less fertile soil, unstable water supplies, more diseases and other adverse conditions which impede their development. (Mellinger, Sachs and Gallup 2000, Sachs 2001)
- Openness. Economies that are integrated with the world economy are open to technological advances, have the opportunity to specialize in the production of goods and can take advantage of economies of scale. (Frankel and Romer 1999)
- Institutions. Institutions which promote property rights and the quality of governance encourage innovation and growth. (North 1990, Knack and Keefer 1995)

Empirical research has sought to distinguish the relative importance of these factors. This task is complicated by their interrelationships: geography, for example, can affect a country's integration with the global economy and the evolution of its institutions. There can also be feedback between economic openness and institutions. Economists attempt to find instrumental variables that are exogenously correlated with economic integration or institutions, but not the other possible determinants of income, to test their relationships with output.

Acemoglu, Johnson and Robinson (2001) examined the determinants of per capita per capita GDP in 1995 in 64 countries, and reported that while institutional development was significant, geography and health conditions were not. Similarly, Easterly and Levine (2003) undertook tests of the different determinants of per capita GDP in 1995 in 72 countries. They reported evidence in favor of the hypothesis that institutions play a direct causal role in the determination of real per capita output. They also found that geographical factors only influence growth indirectly through their impact on institutions. Similarly, Rodrik, Subramanian and Trebbi (2004) found that the quality of institutions "trumps" the other possible determinants of income.

The World Bank (2005) has summarized the results of this body of literature: "Recent econometric and case studies have shown that even when controlling for historical endogeneity, institutions remain "deep" causal factors, while openness and geography operate at best through them."[11]

These results would seem to confirm the "institutionalist stance" of Rawls (2001). Institutions do play a central role in the determination of income. But Rodrik, Subramanian and Trebbi (2004) also cautioned that their results do not provide a guide to improving the quality of institutions. They claimed that "…there is growing evidence that desirable institutional arrangements have a large element of context specificity, arising from differences in historical trajectories, geography, political economy, or other initial conditions."[12]

In a survey of the research done on institutional development, Shirley (2005) summarizes the reasons for underdeveloped institutions as: colonial heritages plus resources which could be exploited by colonizers who designed institutions to appropriate these resources; a lack of political competition which would have placed constraints on political powers; and beliefs and norms that were not hospitable to the formation of institutions. The proximate historical causes of institutional development are greater equality combined with sufficient political competition to limit the ability of rulers to expropriate, combined with long periods of time.

Shirley (2005) also reinforces Rodrik's point that the development of institutions depends on domestic conditions. She cites several examples where the transfer of existing institutions from one country to another failed to take root, including the experience of Latin American countries with the U.S. constitution and the record of the transition economies with U.S. and European bankruptcy laws and commercial codes. She cites the need for what Levy and Spiller (1994) called a "goodness of fit" between specific institutional changes and a country's overall environment.

Outside agents, such as the international agencies, have become aware of the need for good institutions for progress to be made in fostering growth and alleviating poverty. The World Bank undertakes extensive research on this topic and maintains data bases on the quality of governance and institutions. The World Bank's *World Development Report 2002*, for example, was subtitled *Building Institutions for Markets*. But Shirley (2005) is pessimistic about the ability of foreign organizations to induce institutional improvement, since most institutional changes take place over longer time frames than the horizon of aid projects. Moreover, institutional changes can not be imposed from the outside, but must be engineered by those who are most familiar with domestic conditions.

Another cautionary note comes from the literature on the impact of foreign aid on development in general. Easterly (2006) has written extensively about the failures of foreignfinanced development projects to improve economic performance in the countries when they have taken place. Burnside and Dollar (2000) seemed to have found a solution when they reported evidence that aid was effective if the recipient countries had implemented good macroeconomic and trade policies. But Easterly, Levine and Roodman (2004) found that those results were not robust to the addition of new countries and observations to the original data set.

Even if institutions determine the level of economic activity in the long-run, globalization can still have an impact on the poor. The primary channel of transmission is the impact of globalization upon growth, and the evidence generally confirms that open economies grow faster and see a decline in the incidence of poverty. Dollar and Kraay (2004), for example, examined the record of growth in developing nations, and reported that "…open trade regimes lead to faster growth and poverty reduction in poor countries."[13] The World Bank (2005) found that growth was responsible for almost all the significant reductions in poverty in the 1990s, including those that occurred in China and India.

Winters, McCulloch and McKay (2004) reviewed the evidence for all the linkages between trade liberalization and poverty. They present a carefully-worded appraisal:

> Theory provides a strong presumption that trade liberalization will be poverty-alleviating in the long-run and on average. The empirical evidence broadly supports this view, and, in particular, lends no support to the position that trade liberalization generally has an adverse impact. Equally, however, it does not assert that trade policy is always among the most important determinants of poverty reduction or that the static and micro-economic effects of liberalization will always be beneficial for the poor.[14]

Financial liberalization can also indirectly alleviate poverty if it facilitates economic growth. However, the financial crises that occurred, for example, in Mexico in 1994-1995, East Asia in 1997-1998 and Argentina in 2001 severely depressed the standard of living in those countries. Baldacci, de Mello and Inchauste (2002) have reported that financial crises are linked to an increase in poverty and income inequality. Ranciere, Tornell and Westermann (2006), however, conclude that the direct impact of financial liberalization on growth offsets the indirect effect of more crises.

The impact of globalization is far from settled, either among economists or the wider public. Aisbett (2007), who has studied criticisms made of globalization, points out that "…much work remains to show which policies can reduce the adjustment costs borne by the poor and maximize the share of the benefits they obtain from globalization."[15] However, while solutions to poverty are still the object of research and experimentation, we have learned the identity of some of its root causes.

4. Defining Fairness

If the distribution of income across countries is determined over the long run by institutions which largely reflect domestic conditions, are richer nations absolved from any obligations to the poor? No, because countries and institutions do not evolve in isolation. Institutions may not respond to the plans of external agents, but they do react to the external environment. Changes in this environment create incentives which induce responses which affect domestic arrangements.

Pogge (2002, 2005) is correct to point out that the sale of natural resources can contribute to the propagation of autocratic regimes. First, the existence of such resources is an incentive for civil strife, as the winner can take control of state-owned properties, including publicly-owned resources. Second, the revenues received by an unrepresentative government allow it remain in power, even in the face of dissent.

Saudi Arabia, for example, received scores of 7 and 6 on the Freedom House 2007 ratings for political rights and civil liberties, where the ratings range from 1 (highest degree of freedom) to 7 (lowest).[16] The government remains in power, in part because of its ability to distribute oil revenues among the population. The willingness of energy consumers in the upper-income countries to pay for Saudi oil contributes to that government's survival.

More generally, the integration of national economies as globalization continues requires agreements concerning the relevant regimes, i.e., the principles and regulations which govern these transactions (Keohane and Nye 2001). These regimes can be considered as global public goods (GPGs), since they are nonexcludable once instituted and nonrival in their use (Kaul, Grunberg and Stern 1999). Governments have an incentive to "free ride" off the contributions of other countries to the global collective welfare. However, joint action to address common problems is feasible (Sandler 2004).

What are the obligations of fairness in this sphere? Franck (1995) offered an answer in the context of international law and institutions. He proposed two criteria for the determination of fairness: legitimacy and distributive justice. Legitimacy ensures stability and a preference for order, while distributive justice provides for an allocation of society's resources that is evenhanded and impartial, but may allow preferential treatment based on commonly accepted grounds. These two aspects of fairness, Franck (1995) pointed out, are not always in accord.

Narlikar (2006) has suggested that international organizations with majority-based voting rules (such as the United Nations) will attach greater weight to issues of distributive fairness, while organizations with majority-based voting (such as the International Monetary Fund) are more concerned with legitimacy.

Albin (2003) has written about the importance of fairness in the context of international negotiations for GPGs. First, there is a widespread public recognition of the significance of the GPGs, which raises their demand; second, their provision requires cooperation among governments regarding their respective contributions; and third, there are principles of fair treatment at stake in the negotiations. Albin (2003) writes: "To be durable, international collaboration has to be mutually beneficial *and* seen as reasonably fair by all participants."[17]

5. Finding Fairness

Are the existing regimes in international trade, finance and migration beneficial and fair to all participants? Nussbaum (2006) is correct to point out that nations are not equal in size and influence; larger and richer nations have more weight in international forums than do smaller and poorer economies. To demonstrate whether fairness is an attribute of the global economy, we examine the status of procedural legitimacy and distributive justice in international trade, finance and migration. We shall show that the role of fairness differs widely among these areas of globalization.[18] Table 3 summarizes our analysis.

5.1 Trade

After World War II a new organization, the International Trade Organization, was planned to oversee the process of trade liberalization, but this effort was abandoned in the face of

U.S. Congressional opposition. However, the General Agreement on Tariffs and Trade (GATT) was adopted for the purpose of providing a forum for successive multilateral trade negotiations (called "rounds"), and it served as the basis for the international trade regime until the World Trade Organization (WTO) was created in 2005. Fairness has been one of the objectives in the trade negotiations which have taken place under both the GATT and the WTO.[19]

The WTO is an intergovernmental organization with 150 members and a Secretariat in Geneva (Narlikar 2005). The Ministerial Conference is the governing body within the WTO, and includes representatives of all the members. The Conference assigns administrative oversight to the General Council. Underneath the General Council are three Councils which deal with trade in goods, services and trade-related aspects of intellectual property rights (TRIPS). There are also various committees and councils that discuss other relevant aspects of trade, including development.

Each member of the WTO has an equal vote in the proceedings, which implies that all nations have equal voices in the proceedings and should allow the developing countries an opportunity to determine the agenda. In practice, however, agreement in the GATT and the WTO has usually been achieved by consensus. The decision-making process has taken place among the principal suppliers of goods in smaller forums such as the "Green Rooms," thereby effectively excluding the poorer members which have less trade. The problem of representation of these countries is often compounded by a lack of technical expertise which is needed to engage in meaningful negotiations. Toye (2003, p. 120) has pointed to two sources of disparity among members: "…information about what agreements will benefit your country, and the power to influence the outcome of the informal negotiation."[20] The WTO has established an Advisory Centre on WTO Law to assist members with the complexities of trade law.

One principle utilized to ensure fairness in the negotiations has been the stipulation of nondiscrimination. This is manifested in “most-favored nation status,” which obligates the negotiating countries to treat all trading partners equally, i.e., a lowering of trade barriers for one country must be done for all. Moreover, the rule of “national treatment” requires countries to treat domestic and imported goods similarly once the foreign good has entered the country. The second negotiating principle of reciprocity requires a country to match another’s trade concessions with similar measures.

However, the inequality in the basic positions of the negotiating countries has also been acknowledged, and as a result there have been opportunities for preferential treatment for developing countries. These nations have enjoyed special market access to upper income countries, including the U.S. and the European Union members, under the Generalized System of Preferences (GSP). In addition, developing countries have been granted flexibility to fulfill some requirements through Special and Differential Treatment (SDT) provisions. The guiding principle of these arrangements is “diffuse reciprocity,” which seeks to take into account the disparity in the positions of the negotiating parties.

One WTO innovation which is intended to promote procedural fairness in adjudicating disagreements is the Dispute Settlement Mechanism. A WTO member engaged in a dispute with another member can ask for a hearing before a Dispute Settlement Panel, which is comprised of three officials from other countries. Once a decision has been reached, the party which loses is obligated to comply with the decision. If it does not, the WTO can authorize “retaliatory measures” in the form of punitive trade actions against it. Such measures, however, are more likely to be effective against a small economy than a larger country.

The outcome of the trade negotiations have generally not been seen as favorable for developing nations. Brown and Stern (2005), for example, claim that:

> …there are biases in the trade barriers of developed nations against the exports of developing countries. The most obvious instance is the array of measures that restrict trade in agricultural products. Certain labor-intensive manufactures, most notably textiles and apparel, face relatively high tariffs. Tariff escalation by the degree of processing primary products likewise appears directed against products in which developing nations have a comparative advantage.[21]

The World Bank (2005) has made similar claims about the trade policies of the upper-income nations (see Table 4). The Bank (2005) states that the "Industrial countries' unfair tariff treatment of developing countries must be addressed in the upcoming Doha round of trade negotiations."[22] However, the most recent round of negotiations—the Doha round—has collapsed, in part over differences between the U.S. and the European Union regarding the size of each other's proposed changes in their agricultural programs.

There have also been deep divisions between upper income and developing nations over the treatment of intellectual property rights, which were inserted into trade law after lobbying by the U.S. Developing countries have criticized these standards on the grounds that they restrict access to medications and other vital products. A Declaration on the TRIPS Agreement and Public Health, however, was passed in 2001 that states that interpretation of provisions regarding TRIPS must be consistent with public health interests, including a developing country's right to issue a license to a firm to manufacture generic versions of drugs.

5.2 Finance

The IMF was established in after World War II for the purpose of establishing international financial stability, an IPG. The organization was an integral component of the new international monetary system, which was established to avoid the economic chaos of the interwar period. The Bretton Woods system, named after the site of the 1944 New Hampshire conference which created the IMF and its sister institution the World Bank, also included the establishment of fixed exchange rates and the use of capital controls.

The Bretton Woods system collapsed in the 1970s, but the IMF survived and found new ways to achieve its mission. In the 1980s the Fund worked with countries which needed to renegotiate their loan contracts with the international banks. Subsequently they assisted the transition economies in establishing market economies. In the 1990s the Fund served as a crisis manager, dealing with international financial crises in emerging market economies.[23] The IMF currently has 185 members, and its headquarters are located in Washington, DC.

Legitimacy is an issue at the IMF within the context of its governance (Woods 2003). Each member nation is assigned a quota, which is used for determining the amount of money the country contributes to the Fund (25% paid in a widely accepted currency such as the dollar), the amount of credit it can obtain and also its voting rights. Each country receives 250 basic votes and additional votes based on its quota (1 vote for each SDR 100,000 of quota), which is determined by its economic size, the amount of current account transactions and its official reserve holdings.

IMF officials admit that the actual formulas for allocating quotas are quite complex, and the resulting shares of votes do not always accord with the economic size of some members.[24] Table 5 reports the relative share of the total quota of several members and their share of the 2006 PPP-adjusted world economy and the world population. Belgium, for example, has an IMF quota share of 2.12%, a share of 0.54% in the 2006 PPP-adjusted world economy and 0.16% of the 2005 world population. Brazil, on the other hand, with a quota share of 1.40% possesses a 2.56% share of the world economy and 2.90% of the world population. The IMF has announced its intentions to raise the quotas of underrepresented members; however, since once country's gain will be another's loss, this will requite consensus over which countries will accept lower shares, and that consensus has yet to be achieved.

The inequities are compounded by the use of quotas to achieve different purposes, which Mikesell (1994, p. 37), who calculated the quotas at Bretton Woods in 1944, calls "illogical and unnecessary."[25] The quotas are used to establish the composition of the 24-member Executive Board, which oversees the daily operations of the IMF. The five members with the largest quotas (U.S., France, Great Britain, Germany and Japan) each select its own Director, as does China, the Russian Federation and Saudi Arabia. The remaining 177 members are represented by 16 Directors in multi-member constituencies. The constituency groups vary in size and interests, and consequently the voices of the smaller members are not heard.[26]

A further challenge to procedural legitimacy comes from the arrangements used to appoint the Managing Director of the organization, who serves as its chief administrator. When the IMF and the World Bank began operations, the U.S. and its European allies agreed that naming the Managing Director of the IMF would be a prerogative of the Europeans, while the U.S. would enjoy a similar privilege with the head of the World Bank. This custom has continued to this day: the most recent Managing Director was Rodrigo de Rato of Spain, while his counterpart at the World Bank is Robert Zoellick, a former member of the Bush administration.

When the IMF was established, it was envisaged as a sort of credit union, with each member (with the exception of the U.S., the leading economic power at the end of World War II) both contributing funds and then eventually drawing upon them. Over time, however, this categorization has changed, and the IMF's membership is now stratified. The upper-income countries do not borrow from the IMF, and therefore can safely ignore its policy advice. Emerging market countries such as Argentina and Turkey draw upon the IMF in the event of a financial crisis, but otherwise enjoy access to the private capital markets. The third group consists of the poorest countries which are not able to obtain private funding under virtually any circumstances, and depend on the IMF (and the World Bank) for finance. The IMF yields much more influence in the countries which borrow from it, which affects the distributive equity of the system.

The IMF provides credit to countries with balance of payments crises and works with them to implement policies to resolve the crises. The money is disbursed to governments in installments only when benchmarks of policy implementation are achieved, a practice known as conditionality. The policy conditions attached to the loans originally dealt with macroeconomic measures, such as monetary and fiscal policy, and sought to curb excess demand.

In the 1980s, however, conditionality grew to include policies aimed at promoting growth and increasing the efficient use of a country's use of resources. These included the deregulation of some sectors of the economy and the privatization of state-owned enterprises. Many countries found the use of structural conditions intrusive and their theoretical basis dubious. The use of structural conditionality reached a record during the Asian crisis, when the IMF's program agreement with Indonesia listed 140 structural policy commitments (Goldstein 2003). Since then, the IMF has reviewed the scope of its conditionality and narrowed their scope to the Fund's core area of expertise, macroeconomic policies and stabilization (IMF 2002).

The IMF has sought to respond to the needs of its poorest members by establishing lending programs for these countries. The current lending arrangement is the Poverty Reduction and Growth Facility (PRGF), and it provides credit for three years at a subsidized lending rate of 0.5 percent. However, a recent report by a group of finance officials (IMF 2007) urged the Fund to reduce its development lending and to refocus its efforts on its macroeconomic assessments, policy advice and collaboration with the World Bank.

5.3 Migration

There are currently almost 200 million people, about 3 percent of the world's population, who live outside their country of birth. People move across borders to find new homes, temporary jobs, asylum or refuge from civil strife. Among the major sources of immigrants countries are Mexico, India and the Philippines, while the U.S. is the most popular destination (Global Commission on International Migration 2005).

Despite the large numbers of migrants, there is relatively less international policy that deals with migration when compared to the regimes in trade or finance, nor a widely accepted sense of international migration as an IPG.[27] There are several relevant United Nations covenants and declarations, and also International Labour Organization conventions. The International Organization for Migration (IOM), also based in Geneva, has 120 members and serves to coordinate government policies, but has no jurisdictional or administrative duties. There are Regional Consultative Processes for governments, which serve as forums to exchange information and establish common grounds for cooperation. The IOM (2005, p. 368), however, summarized the state of international governance in this area: "Despite the prominence of migration on international agendas for more than a decade now, efforts to achieve global consensus on its governance have proven elusive."[28]

Consequently, each national government formulates its own rules to manage migrant flows (Goldin and Reinert 2006). Australia, Canada, New Zealand and the U.S., for example, administer programs which grant permanent residence to nonrefugee foreigners. Several nations, including Ireland and the United Kingdom, grant temporary visas to workers with needed technical skills. The oil-exporting countries of the Middle East admit workers to perform relatively low-skilled jobs. Overall, there is little fairness or consistency in the mix of national policies on migration. The IOM (2005) found that:

> …the current labour migration policies of many migrant-receiving countries appear to be based on an ethical framework of "consequentialist nationalism", which focuses on the consequences for the community, rather than the rights of individuals, and accords a significantly lower moral standing to non-citizens than to citizens.[29]

As a result of this focus, countries maintain restrictions on the numbers of people allowed within their borders. But migrants will cross borders illegally if the economic incentives to do so outweigh the perceived costs. The number of undocumented migrants in the U.S., for example, has been estimated at 10 million, and over half of these are believed to have come from Mexico. Migrants without the proper documents are at risk of exploitation by employers. They are also vulnerable to human traffickers, and every year lives are lost in attempts to covertly cross borders.[30] Irregular migration arouses strong emotions among the citizens of destination countries and sharp disagreements over the consequences of the presence of undocumented workers and the proper response.

Migration has a number of effects on the source and destination countries.[31] The movement of labor from one area to another lessens the disparity in wages across the areas. Solimano (2001) points out that "From the viewpoint of world distribution of income, international migration tends to *reduce* income disparities *across countries*…"[32] He also explains that inequality within countries can worsen in the destination countries where labor is scarce and the increase in the supply of labor dampens wages. But immigration has the opposite effect on wages in the labor-abundant source countries.

Migration has other, long-term effects that affect growth in the source countries. These countries lose workers (the "brain drain"), whom may have been trained at national expense. They gain from the impact of remittances sent home by workers abroad to their families, which are now larger than foreign aid flows. The countries also gain if the migrants return home with new skills to set up businesses.

Globalization influences the rate of migration. Migration and trade can be substitutes in the long-run: either workers produce goods that cross borders, or the workers do. In the short-run, on the other hand, trade opening may result in worker dislocation that contributes to migration. Trade liberalization results in a "trade hump" if the creation of new jobs after liberalization is a delayed process and unemployed workers seek better opportunities abroad. Migration from Mexico to the U.S. was supposed to slow after the implementation of the North American Free Trade Association (NAFTA) in 1994, but the rapid growth of the U.S. economy drew workers from the slower-growing Mexico.

The current arrangements which govern migration are neither efficient nor just. Global-enhancing improvements in welfare are stymied by provisions which impede the flow of peoples. Liberalizing the restrictions on labor migration has the potential of generating large gains for the poor source countries of the migrants as well as increasing global welfare.[33] Migration will become increasingly important as slowing population growth in Europe and other areas increases the opportunities for foreign workers.

The United Nations recently established a Global Commission on International Migration to raise awareness of the related issues and suggest solutions. Among the proposals offered by the Global Commission (2005):

- Strengthening the legal framework affecting migrants, while protecting their ability to benefit from labor standards;
- Cooperation of states in stemming irregular migration, while ensuring that they do not jeopardize human rights;
- Enhancement of the governance of international migration through strengthened capacity at the national level, greater consultation and cooperation at the regional level, and more effective dialogue and cooperation among governments and between international organizations.

6. Prospects and Conclusions

The evidence reviewed in this paper demonstrates that poverty reflects underlying adverse domestic conditions. However, the international regimes and organizations that govern economic transactions and the flows of financial capital and labor do not always operate in a manner that would assist the poorer countries to advance their status. They often fail the criteria of procedural legitimacy and distributive justice that we have used to characterize fairness in this analysis.

The significance of fairness varies greatly across the three areas we examined. There is an acknowledgement (often violated) in international trade that special measures should be taken to account for the status of poorer nations. However, the existing regime has come under mounting criticism which the Doha round was not been able to resolve. Procedural legitimacy is a particular concern in the governing structure of the IMF, and the method and patterns of quota allocation are no longer acceptable to many countries.

There is little recognition of norms of fairness in the rules that govern international migration.

What are the implications of such failures? In the long-run, they preserve the disparities in income which exists across nations. They serve as sources of contention among states and hinder potentially rewarding collaboration. A more immediate consequence, however, may be the fragmentation of the global system of economic governance. There have been a number of developments that indicate that many developing nations are seeking alternative arrangements for trade and finance.

Regional trade pacts, for example, have become an alternative to multilateral trade agreements. The WTO has placed the number of regional pacts at approximately 300.[34] These include, for example, the Association of Southeast Asian Nations (ASEAN) with its ten members and Mercosur in South America with five members and five associates. Regional trade agreements can be harmful from the viewpoint of global welfare when trade is diverted to less efficient producers. They can also create constituencies which may oppose further liberalization through the WTO.

Several Asian countries, particularly China and Japan, have accumulated large stocks of foreign exchange reserves—mainly in dollars—that would allow them to withstand a currency attack. Moreover, the members of the ASEAN group with China, Japan and Korea have established a regional network of swap agreements that their central banks could activate in the event of a financial crisis. While foreign reserves serve a purpose in diminishing the probability of a crisis, they also carry an opportunity cost. These developments suggest that the Asian countries are seeking to become independent of the IMF. There have been similar discussions in South America.[35]

Hirschman (1970) presented the options facing members of any group who are unhappy with its current performance: exit from the group or exercise their voices to achieve change. The upper-income members of the post-war global economic regimes (presumably) want the lower-income countries to remain engaged with them. However, the poorer nations must believe that there exists an element of fairness in how the global economy functions; otherwise, they will seek alternative regimes that serve their interests better.

NOTES

[1] GDP per capita, purchasing power parity adjusted in constant 2000 dollars. Source: *World Development Indicators*, on-line.

[2] See note #1.

[3] Japan and Argentina, which had similar levels of development at the end of the 19th century, has very different growth paths over the 20th century and form another interesting contrast.

[4] Nussbaum (2006), p. 320.

[5] Nussbaum (2006), p. 316.

[6] Rawls (2001), p. 111.

[7] See Mandle (2006) for a thorough review of the relevant literature.

[8] Rawls (2001), p. 108.

[9] Nussbaum (2006), p. 235.

[10] See the next section for a summary of this work.

[11] Word Bank (2005), p. 57.

[12] Rodrik, Subramanian and Trebbi (2004), p. 156.

[13] Dollar and Kraay (2004), p. F47.

[14] Winters, McCulloch and McKay (2004), p. 107-107.

[15] Aisbett (2007), p. 67.

[16] See www.freedomhouse.org

[17] Albin (2003), p. 267.

[18] Kapstein (2006) presents a detailed analysis of fairness in economic relations.

[19] Narlikar (2006) presents a detailed analysis of the fairness of international trade negotiations drawing upon Franck's framework. Davidson, Matusz and Nelson (2006) and Suranovic (2000) also present analyses of fairness in international trade.

[20] Toye (2003), p. 120.

[21] Brown and Stern (2005), p. 13.

[22] World Bank (2005), p. 151.

[23] See Joyce and Sandler (2007) on the IMF's status as a provider of public goods.

[24] See "Working on a More Transparent Formula," *IMF Survey*, February 26, 2007, p. 54.

[25] Mikesell (1994), p. 37.

[26] See Woods and Lombardi (2006) on how this system operates.

[27] See Hatton (2007) on the differences between the international regimes for trade and labor,

[28] IOM (2005), p. 368.

[29] IOM (2005), p. 208.

[30] See "Spanish rescue units find 3 dead in immigrant boat off Canary Islands," *International Herald Tribune*, March 8, 2007.

[31] IOM (2005), Chapters 8 and 9, reviews the evidence on the economic effects of migration.

[32] Solimano (2001), p. 23.

[33] See Birdsall, Rodrik and Subramanian (2005).

[34] See "Regional Trade Agreements: Facts and Figures" at the WTO web site, www.wto.org

[35] "Hugo Chávez exploits oil wealth to push IMF aside," *International Herald Tribune*, March 1, 2007.

Table 1

Per Capita GDP
(1990 international dollars)

	1870	*1913*	*1950*	*1973*	*1998*
W Europe	1,974	3,473	4,594	11,534	17,921
US, Can, Aus, NZ	2,431	5,257	9,288	16,172	26,146
Japan	737	1,387	1,926	11,439	20,413
Asia (x-Japan)	543	640	635	1,231	2,936
Latin America	698	1,511	2,554	4,531	5,795
E Europe, USSR	917	1,501	2,601	5,729	4,354
Africa	444	585	852	1,365	1,368
World	867	1,510	2,114	4,104	5,709
Spread	5:1	9:1	15:1	13:1	19:1

Source: (Maddison, 2001)

Table 2

Growth of Per Capita GDP
(annual average compound growth)

	1820-1870	*1870-1913*	*1913-1950*	*1950-1973*	*1973-1998*
W Europe	0.95	1.32	0.76	4.08	1.78
US, Can, Aus, NZ	1.42	1.81	1.55	2.44	1.94
Japan	0.19	1.48	0.89	8.05	2.34
Asia (x-Jap)	-0.11	0.38	-0.02	2.92	3.54
Latin America	0.10	1.81	1.42	2.52	0.99
E Europe, USSR	0.64	1.15	1.50	3.49	-1.10
Africa	0.12	0.64	1.02	2.07	0.01
World	0.53	1.30	0.91	2.93	1.33

Source: (Maddison, 2001)

Table 3

Issues of Fairness in International Trade, Finance and Migration

Area	*Primary Intergovernmental Organization*	*Procedural Legitimacy Issues*	*Distributive Justice Issues*
Trade	World Trade Organization	WTO Decision Making Diffuse Reciprocity	Structure of Tariffs Subsidies in US, EU TRIPS
Finance	International Monetary Fund	Determination of Quotas Executive Board Composition Choice of Managing Director	Conditionality
Migration	International Migration Organization	No International Norms	Migrants' Rights Illegal Migration

Note: Other intergovernmental organizations, such as the World Bank, the International Labour Organization and the United Nations Conference on Trade and Development, also address issues related to fairness in trade, finance and migration.

Table 4

Tariffs of Richer Countries on Industrial and Developing Nations

Exporting Region	*Agricultural Exports*	*Nonagricultural Exports*
Industrial Countries	15.3	1.0
Developing Countries in:		
East Asia	30.5	5.1
Europe and Central Asia	35.1	5.9
Latin America and Caribbean	20.4	2.1
Middle East	23.4	6.0
South Asia	25.8	8.1
Sub-Saharan Africa	23.6	4.2

Source: World Bank (2005)

Table 5

IMF Quota Shares, Relative Size of World PPP Economy
And Population Shares For Selected Countries

Country	*IMF Quota Share*	*PPP-adjusted Economy Share*	*World Population Share*
Belgium	2.12	0.54	0.16
Brazil	1.40	2.56	2.90
India	1.91	6.36	17.03
Netherlands	2.38	0.89	0.25
Russian Federation	2.74	2.56	2.22
U.S.	17.09	19.76	4.55

Source: IMF quota shares appear on the IMF's web site, www.imf.org. The data for 2006 PPP-adjusted economies and populations appear on the World Bank web site, www.worldbank.org

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