Development Friendly Rotational Labor Mobility

Lant Pritchett

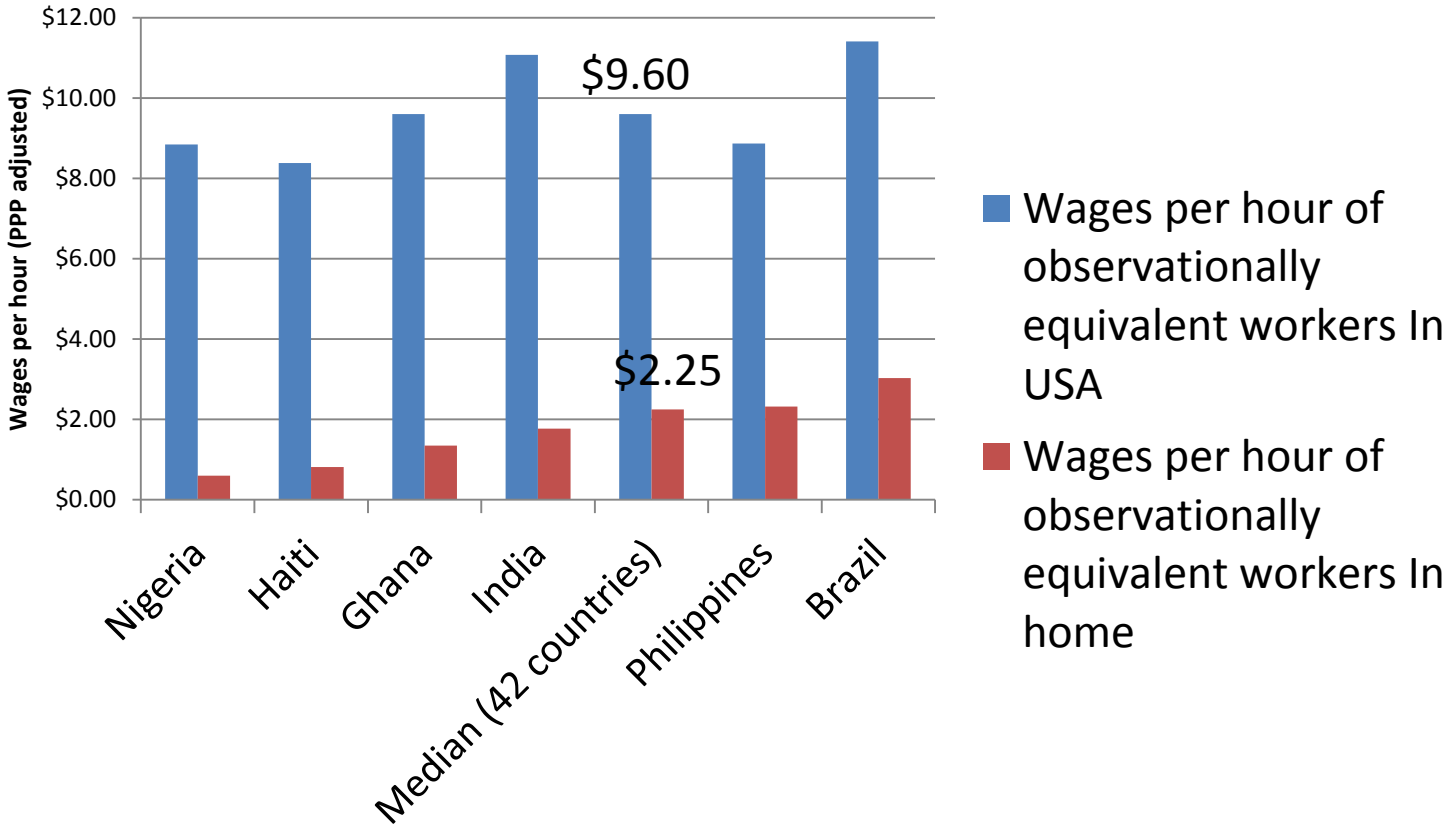
BSG and CGD

November 26, 2018

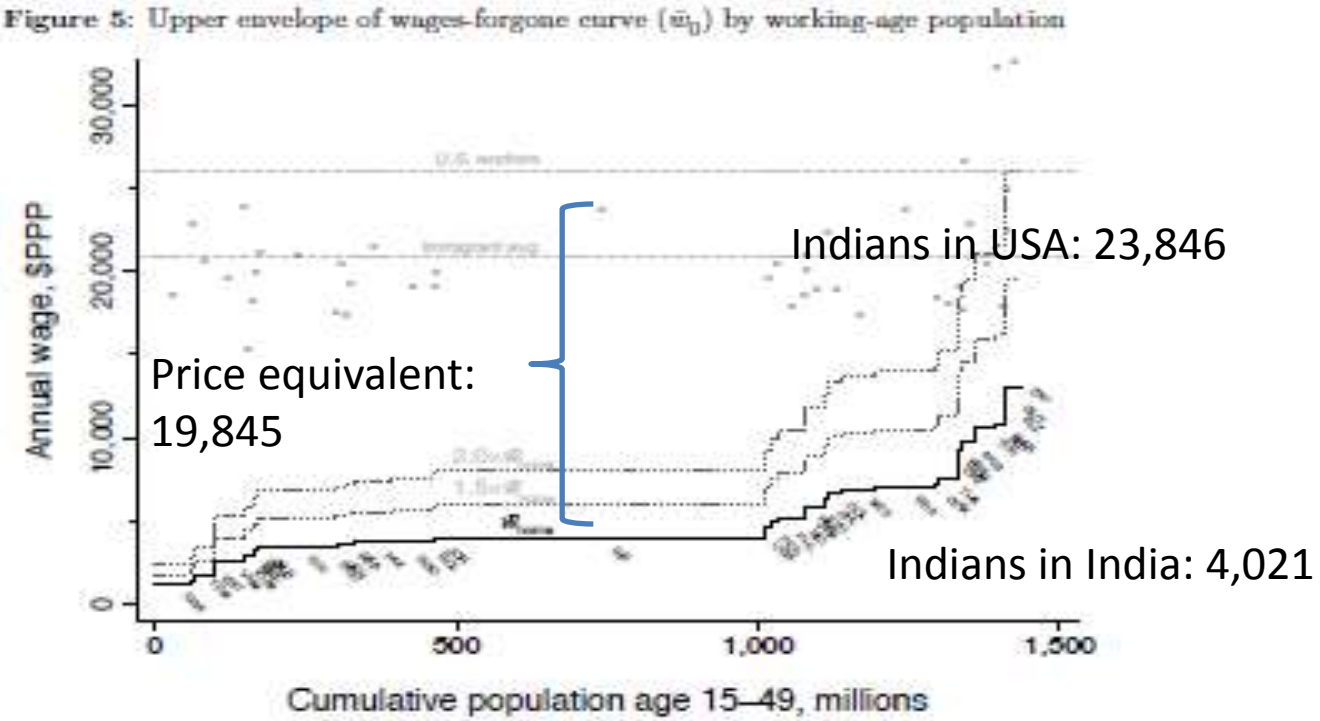
The “price equivalent” of border based restrictions

- The tariff of 10 percent on a specific product (say, sugar) would be expected to raise the domestic price of the product by 10 percent.
- Suppose that instead of a tariff the government imposed a quota that limited imports to 10,000 tons of sugar. We could ask: “how much higher is the price of sugar due to this quota?” There is some tariff on imported sugar such that the demand would be 10,000 tons. That is the “price equivalent” of a quota of 10,000 tons.
- Now suppose that instead of a simple and transparent quota of a certain tons of sugar there was a complex regime that banned all imports except those that received a special license. How would we estimate the “price equivalent” of this complex set of restrictions?

Comparing the wages of ‘observationally equivalent’ workers



The (selectivity adjusted) wage of observationally equivalent workers in India is P$4,021 versus P$23,846 in the USA—a "tariff equivalent" of border based restrictions on labor of 500 percent



for 35–39 year-old male workers with 9–12 years of schooling acquired in the home country. Upper envelope of wages forgone (w_0) estimated using lower bounds on R from Table 2 col. 2: $w_0 = w_{US}/R|_{s=1,11-13}$. Single dash is wage if immigrant in U.S., born and educated in each country specified directly below that dash. "Immigrant avg." is unweighted mean across country-of-birth for immigrants in U.S. "U.S. workers" is mean for U.S. born.

The income gains from allowing an additional low skill worker (male, 35 years old, urban, formal sector) to move to the USA is a 15-49 aged population weighted average of P$17,115 (based on countries with 1.4 billion youth)

Country	Income in USA	Income in home (selectivity adjusted)	Difference	Pop'l
India	$23,846	$4,021	$19,825	545
Indonesia	$21,194	$3,423	$17,771	117
Brazil	$23,818	$7,005	$16,813	97
Bangladesh	$19,315	$3,804	$15,510	67
Pakistan	$21,662	$3,705	$17,957	65
Nigeria	$18,689	$1,186	$17,503	57
Mexico	$17,511	$6,849	$10,662	54
10 largest	$20,266	$4,286	$15,981	1,156
Population weighted average, 40 countries	$21,855	$4,740	$17,115	1,435
Wages per hour (assuming 2080 hours)	$10.51	$2.28	$8.23	

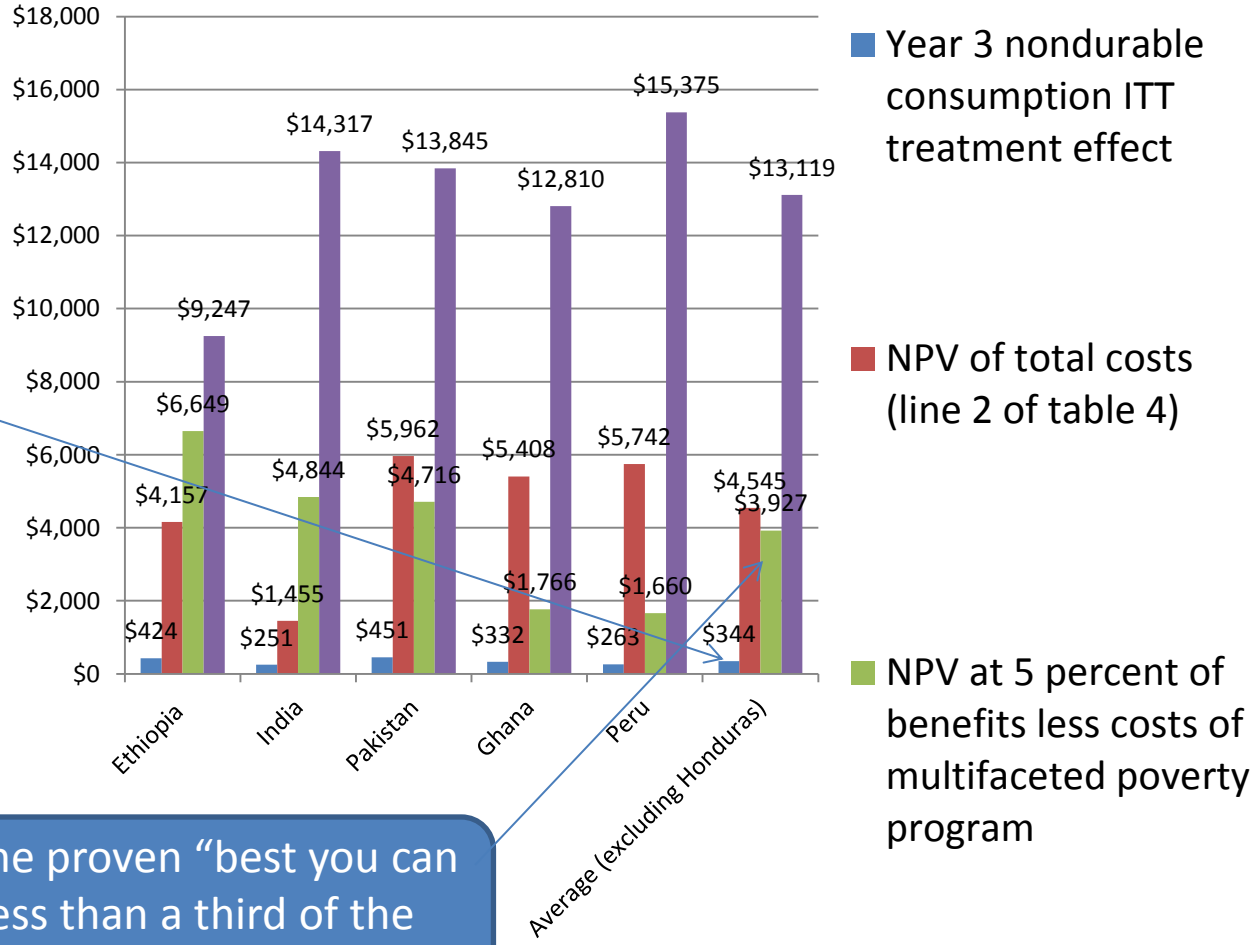
Source: Author's calculations from results in Clemens, Montenegro and Pritchett 2016.

There has not been “globalization”, there has been POSLEBL

- The WTO agreement limits restrictions on most movement of goods to tariffs—and typical tariffs are very low (<10 percent)
- The price equivalent of barriers to capital mobility suggest very small gaps (by some estimates the marginal product of capital is roughly equalized across countries)
- The price equivalent of the border based barriers to labor mobility is two *orders of magnitude (*more than 100 times) higher than goods: the average US tariff is around 2 percent the price equivalent of restrictions to labor is on the order of 300-400 percent.
- Proliferation of Sovereigns with liberalization of everything but labor (POSLEBL).

In the current world, the least you can do for the poor is much better than the best you can do

RCT evaluation across six countries of the "Graduation" program approach to raise incomes of the ultra poor generates $344 in year three HH income with $4,545 in year 2 costs



The *lifetime* NPV of the proven "best you can do" with *in situ* is less than a third of the *annual* wage differential for low skill workers

Four points

- The gains in wages are because some places are just more productive—for all factors of production—and this is "in the air"—this means these gains are free (pay for themselves)
- The future of jobs in the US suggest there are more "low skill, non-substitutable" created than there are net increase in the native born labor force in *total*
- For Europe the question isn't "can they absorb these refugees" but "where can they find the labor they need"
- The distortion to labor markets means the scarcest factors in the world are, perversely, busy economizing on the most abundant factor

Not unproductive people: People in really low productivity places

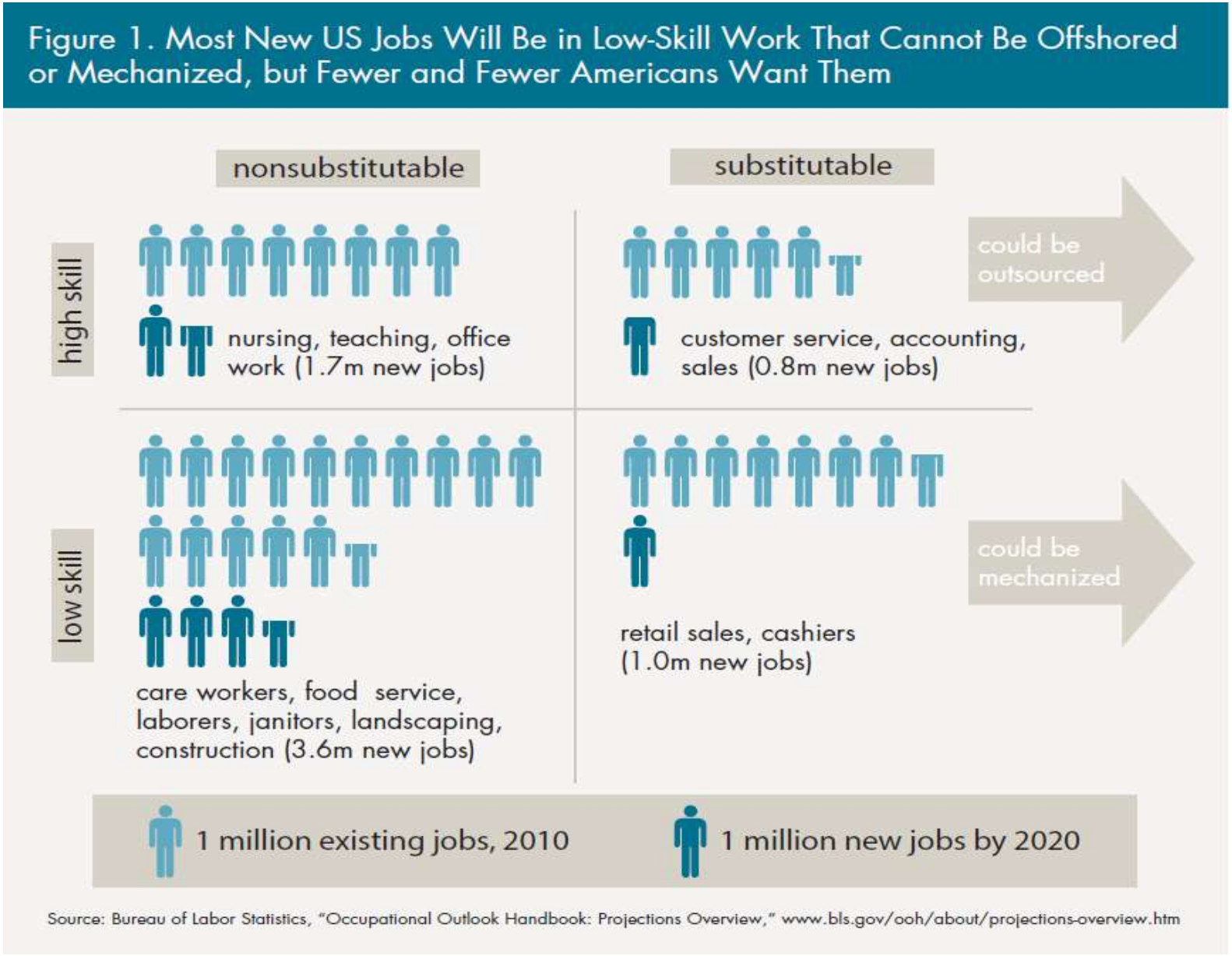
Not enough Air to be productive

Not enough A (TFP) to be productive

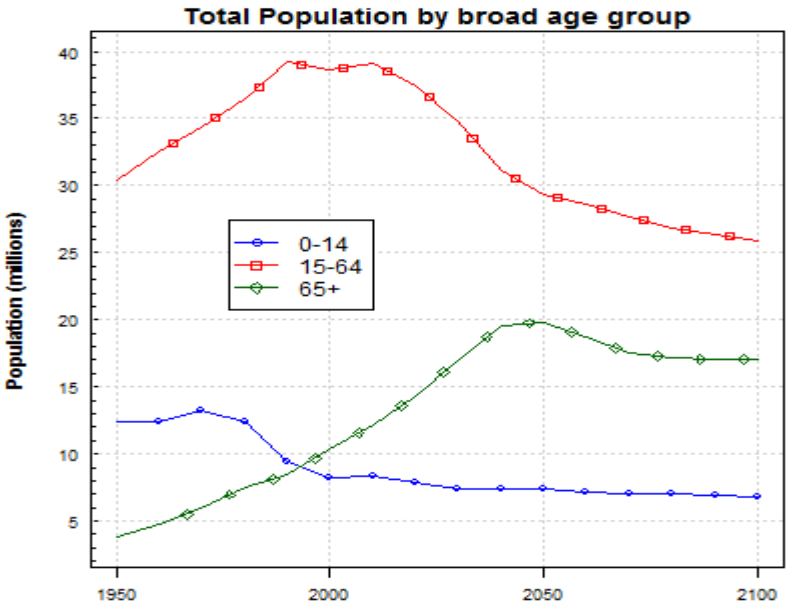
The main thing we have learned from empirical growth economics is that

a) most of the productivity differential across countries is "A"—an "in the air" productivity multiplier of factors

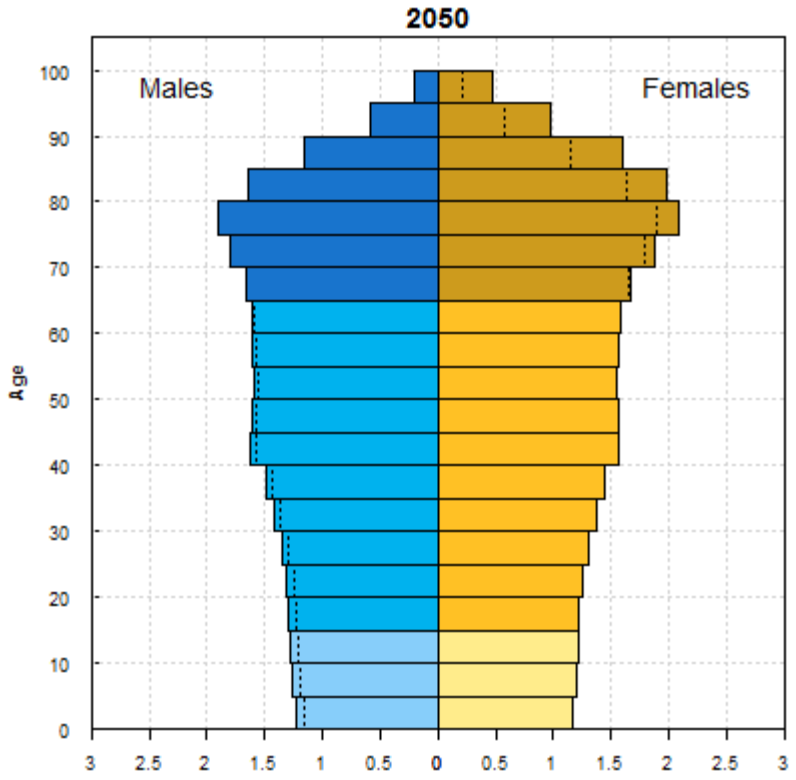
b) A has not been converging as economics thought it would—so is a much deeper, more intractable, concept than "(codifiable) knowledge"

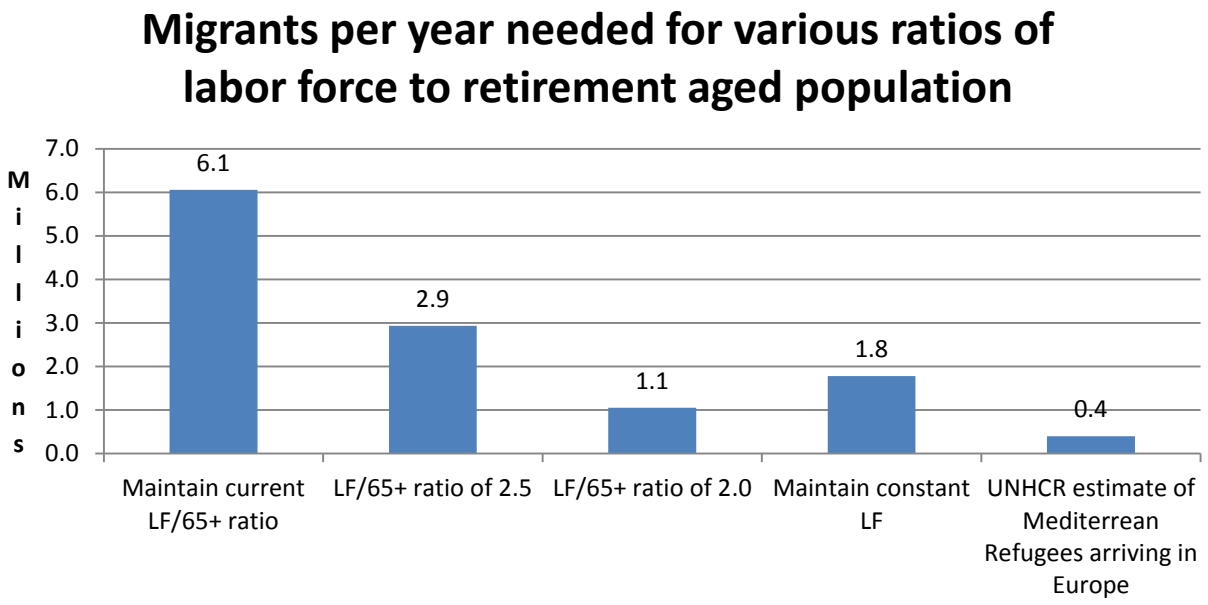


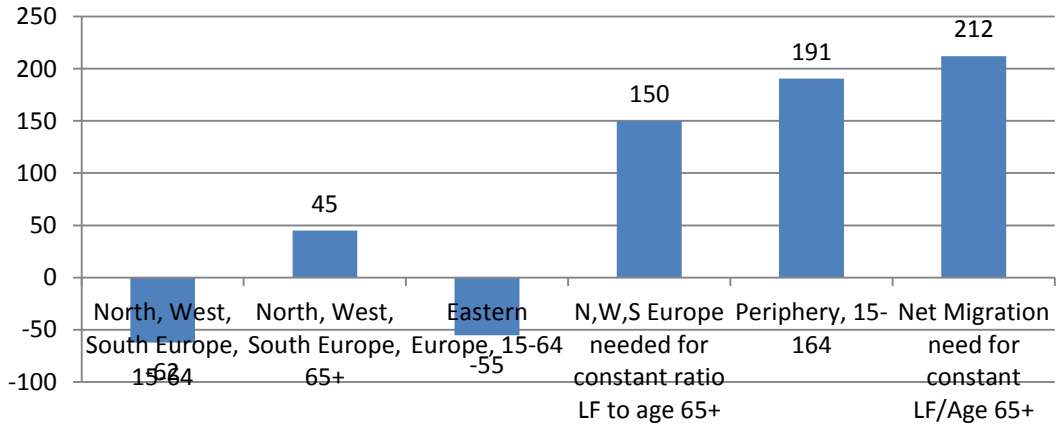
Source: [Clemens and Pritchett]



The future collapse of the working age population and rise of the old, inverting the demographic pyramid: Italy, for example







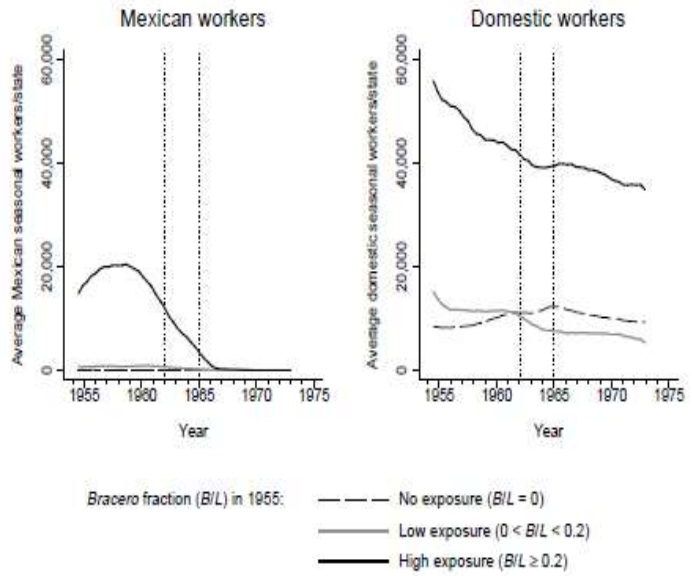
The question for Europe isn't the short run question of "what are we to do with these refugees?" it is the long run question: "what will with do without migrants?"

Source: https://www.cgdev.org/blog/europe-refugee-crisis-hides-bigger-problem

Been there, done that, stopped making the t-shirt in America…the impact of Bracero exclusion in 1964

Got rid of a program for >100,000 seasonal Mexican workers in the early 1960s and the impact on domestic employment was: Nothing (dark line are affected states)

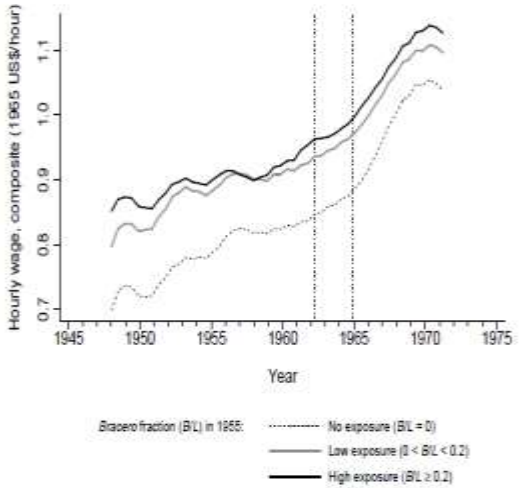
Figure 3: Number of seasonal farm workers employed, state averages grouped by exposure



Fan-Gijbels (1992) local linear regressions of monthly state-average number of workers employed on month-by-year, Epanechnikov kernel, bandwidth 9 months. Vertical dotted lines show the beginning of major government efforts toward *bracero* exclusion (March 1962) and near-complete exclusion at the termination of the program (December 1964).

The effect on wages was: Nothing (dark line are affected states)

Figure 2: Quarterly average real farm wages in states grouped by exposure to *bracero* exclusion



Fan-Gijbels (1992) local linear regressions of quarterly state-average hourly wage on quarter-by-year, Epanechnikov kernel, bandwidth 2 quarters. Real wage adjusted by national Consumer Price Index. Vertical dotted lines show the beginning of government efforts toward *bracero* exclusion (March 1962) and near-complete exclusion at the termination of the program (December 1964). High-exposure group is AZ, CA, NE, NM, SD, TX. Low-exposure group is AR, CO, GA, ID, IL, IN, MI, MN, MO, MT, NV, OR, TN, UT, WA, WI, WY. No-exposure group is AL, CT, DE, FL, IA, KS, KY, LA, MA, MD, ME, MS, NC, ND, NJ, NY, OH, OK, PA, SC, VA, VT, WV.

Source: Clemens, Lewis and Postel, 2017

	High skill, citizenship path	Low skill, citizenship path	Low skill, rotational	Refugee or asylum
Economic risk to natives (lost wages, jobs, fiscal costs)				
Security risk (terrorism, crime)				
Political risk (will change political outcomes, race to the bottom, ethnic cleavage)				
“Way of life” risk (will look/act ‘foreign’ in ways that irritate natives)				
Morality risk (movers will be abused in ways natives)				

A Goldilocks, "Just Right" Approach to Development Friendly Rotational Labor Mobility?

A "just right" approach to global advocacy for development-friendly labor mobility might be an organization which is:

(i) pluri-lateral in its membership,

(ii) a platform for voluntary agreements of many types, each passing a threshold of acceptable practice,

(iii) provides services to negotiate and implement agreements on a fee for service basis

(iv) designed to promote more and better DFRLM through practice, research, and advocacy.