

Global Poverty Alleviation: Labor Mobility and/or Foreign Aid?

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Outline

- The gains to low skill labor mobility (the least you can do)
- The gains to *in situ* programs/projects for the poor
- Its all A
- The impact of “foreign” aid: macro transfer, micro program, promoting good A

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.
- In 1987 the supply price of sugar to the USA was 18.5 cents/kg the domestic price was 48.1 cents/kg and hence the “tariff equivalent” was 29.6 cents/kg or *ad valorem* tariff of 160 percent.
- 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? Compare the price in supply countries to the same in the receiving country

Comparing the wages of 'observationally equivalent' workers with specific characteristics

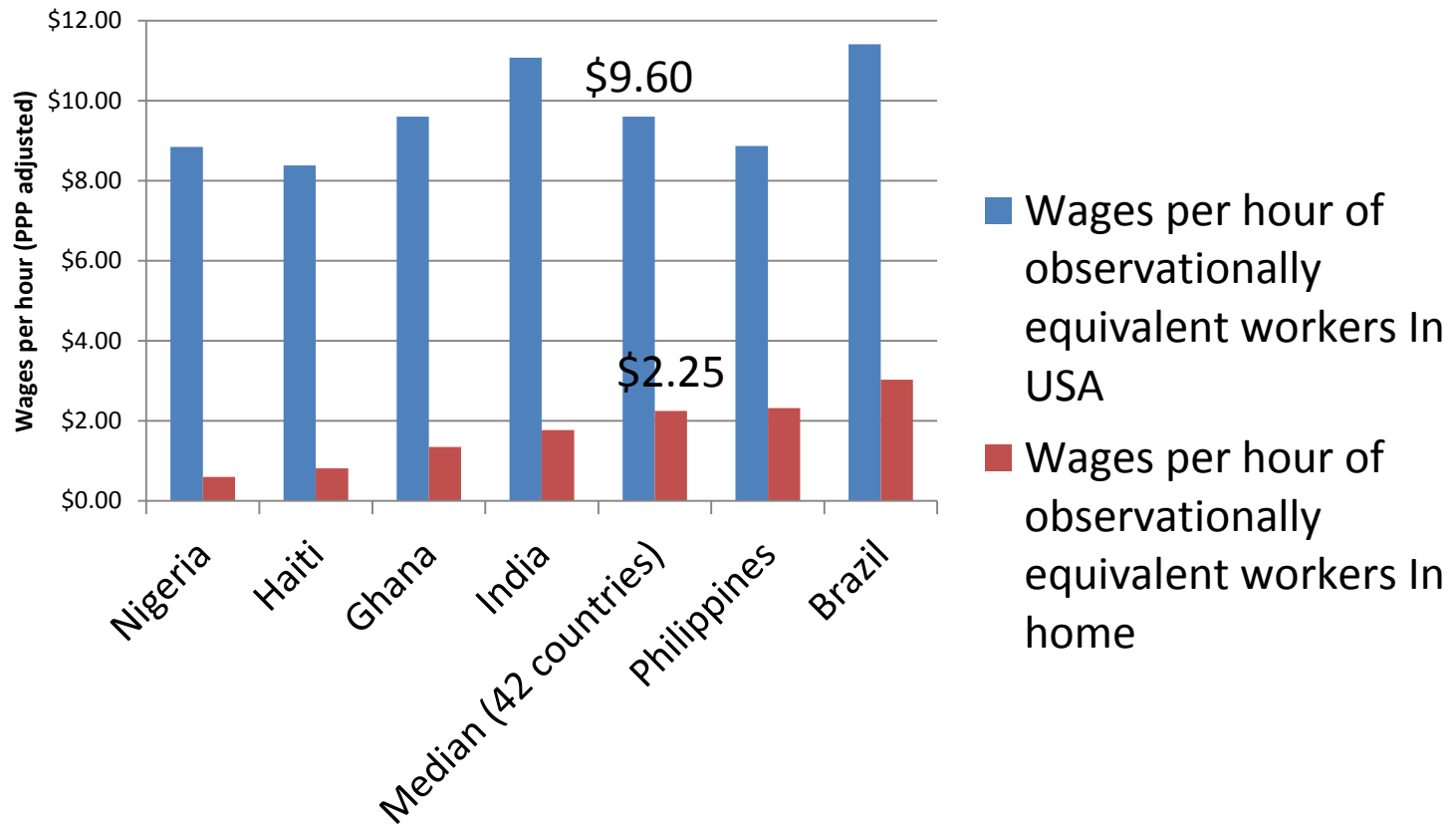


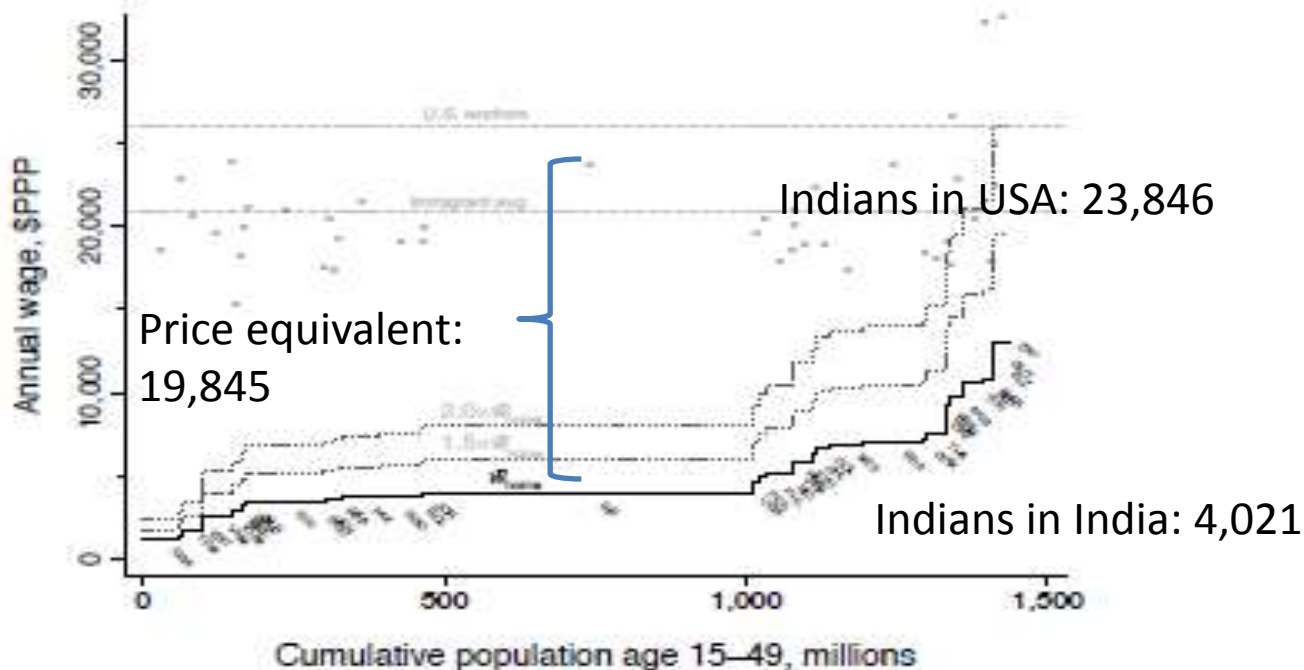
Table 1: The income gains from allowing an additional low skill worker (male, 35 years old, urban, formal sector) to move to the USA from various countries are between \$10,000 and \$20,000 a year (in purchasing power dollars)

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.

The estimated upper bound of global supply curve of equal productivity labor, adjusted for selectivity of movers

Figure 5: Upper envelope of wages-forgone curve (\bar{w}_j) by working-age population



For 16-59 year-old male workers with 9-12 years of schooling acquired in the home country. Upper envelope of wages-forgone (\bar{w}_j) estimated using lower bounds on R from Table 1 col. 2: $\bar{w}_j = w_{US}/R_j^{1,11-13}$. 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.

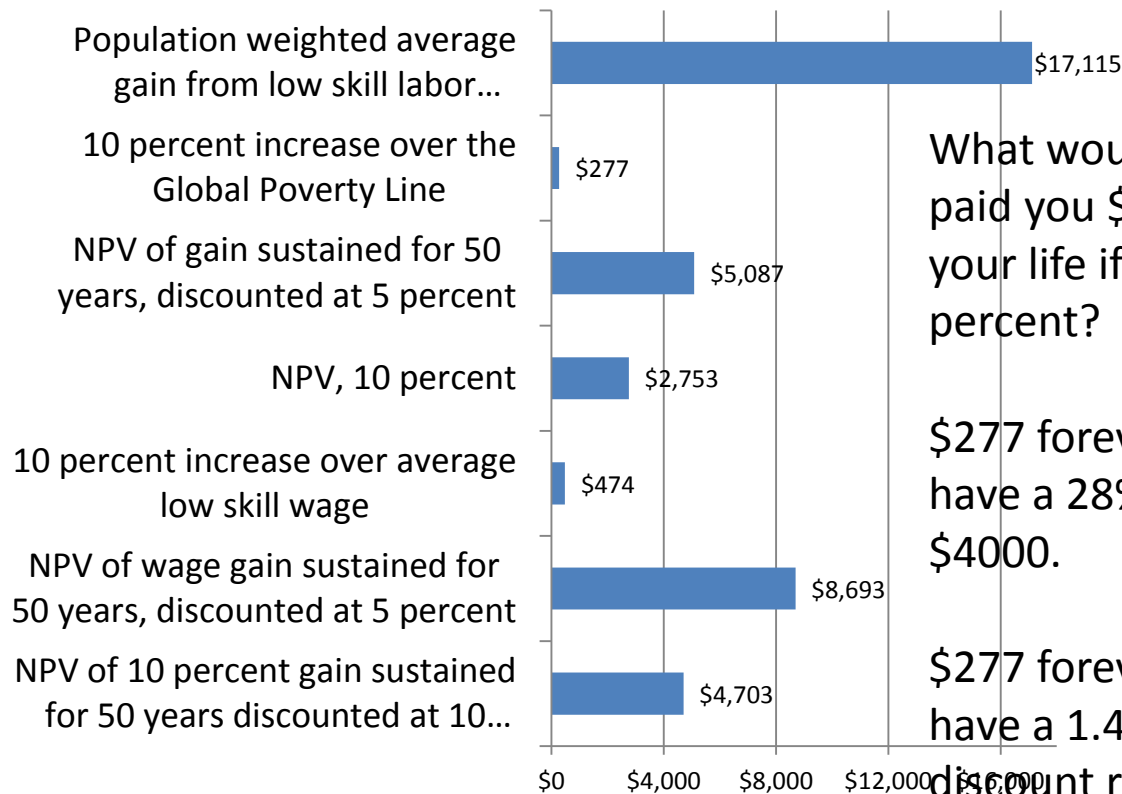
The least you can do....

- At the existing margin, a typical low skill worker in the developing world would gain \$17,115 in *one year* from being *allowed* to work in the USA.
- And people in the USA would willingly hire them for this work so the net cost of allowing this is (less than) zero as there are net positive benefits to the host country {we'll bracket this}

What is going to be the best you can do for the poor with direct targeted income/well-being enhancing programs in place?

- Start with the economists' presumption that people are mostly doing the best they can for themselves.
- This implies that there should not be extraordinarily high return investments in what are “private goods” (e.g. rival, excludable goods with (potential) markets)—like productive assets, training, information(ish), etc.
- As a benchmark the real rate of return on US stocks is around 6 percent—so a 10 percent return (at the risk of the US market) is a fantastic return

A great return of 10 percent off of a low base in a small number



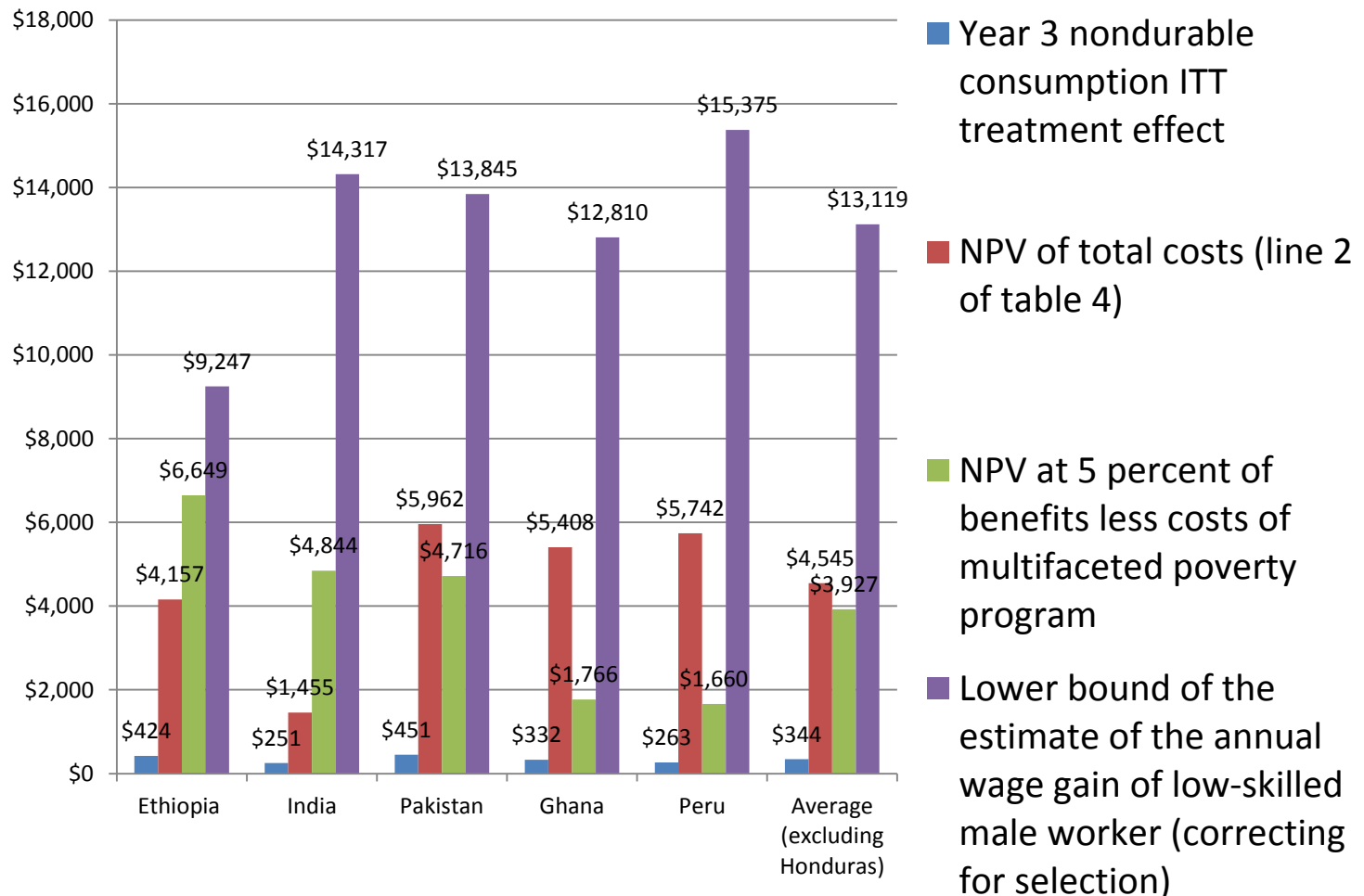
What would you pay for an annuity that paid you \$277 a year for the rest of your life if your discount rate was 5 percent?

\$277 forever for \$1000 today would have a 28% return and NPV(5) of about \$4000.

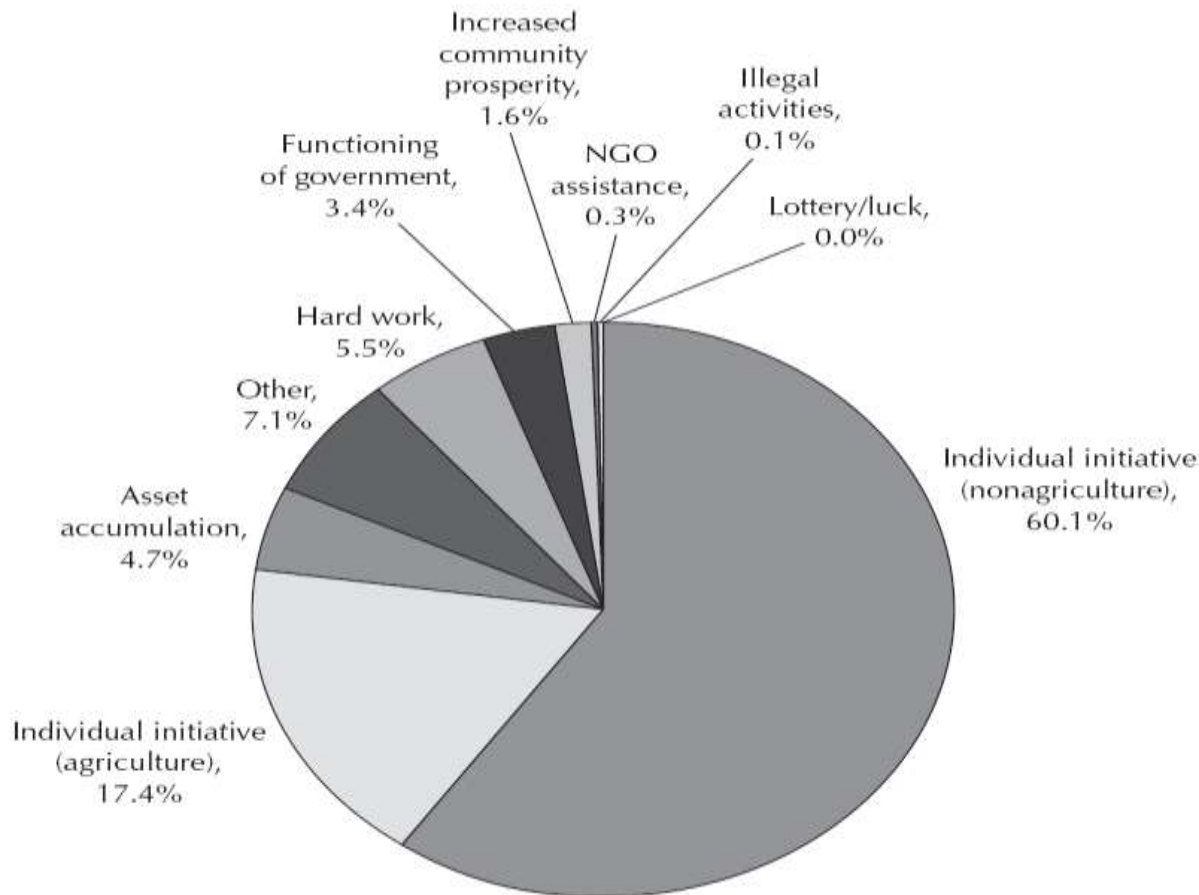
\$277 forever for \$10,000 today would have a 1.4% return (lower than your discount rate so a negative NPV)

\$5087 is what you could pay and have zero NPV.

The “graduation” approach to raise incomes of the lutra poor generates \$344 in year 3 income with \$4545 in year 2 costs (rigorous RCT evaluation across six countries)



What we should have expected...people are not passively waiting for help...



In a massive study of poverty dynamics we found of roughly 4,000 people we interviewed who had moved out of poverty only 19 cited “NGO assistance” as a primary cause (Naryan, Kapoor and Pritchett) while 88 percent attributed it to their own economic initiatives

“Cash as an index fund”

- Blattman and Neihaus (2014) have made the argument that just giving people cash does much, much better than many, many poverty interventions by NGO and government as those often have very high costs and mixed actual impact.
- If I put \$4345 into USA stocks and paid out the historical average return directly (and costlessly) to poor households I could give them \$265 a year, forever.
- So the “best you can do” —a complex, multi-faceted, asset transfer program implemented by a competent, low cost NGO (BRAC) does appear to beat cash (by a little).
- But this means we should think of “best” gains to the poor as slightly less than dollar for dollar (to accommodate transactions costs).

Redistribution not efficiency gain justifies direct programs

- Suppose your “utility” was equal to the natural log of your consumption, then “marginal utility”—the gain from having one more dollar to spend—is $1/c$ and hence declines as consumption increases.
- Marginal utility of someone at the global poverty line is 64 times higher than someone in the USA highest decile:

$$\frac{MU_{poor}}{MU_{US\ 90th}} = \frac{\$44,152}{1.9 * 365} = 63.6$$

Obviously for truly wealthy philanthropists the ratio of marginal utility is hundreds to 1.

The shift in development thinking: from “accumulation of factors” to “productivity of factors”

Factors generate income differences, A converges fast

- Growth dynamics are driven by the speed with which factors can be accumulated, limited by available savings
- Returns to factors (e.g. capital) are higher in poor countries (as A is the same by K/L low) and so (all else equal) factors flow to low productivity places.
- Incomes converge between rich and poor

{None of the above turned out to be true}

A generates income differences and A does not converge

- Growth dynamics are driven by A (and the effects of A on factor accumulation).
- Returns to factor accumulation (e.g. capital) are low or equalized) in poor countries as A is low.
- Incomes need not converge over any horizon (unless the dynamics of A change)

{Nearly every development economist now believes something like this}

Not unproductive people: People in really low productivity places



Not enough Air

Not enough A (TFP)



Three completely different things people mean by “foreign aid”

- “Foreign aid” as government to government (or multi-lateral to government) transfers of savings/investible resources.
- “Foreign aid” as gov’t/NGO transfers to specific individuals for specific programs/items.
- “Foreign aid” as a global movement that promotes “national development”

Foreign Aid: Macro transfer of resources

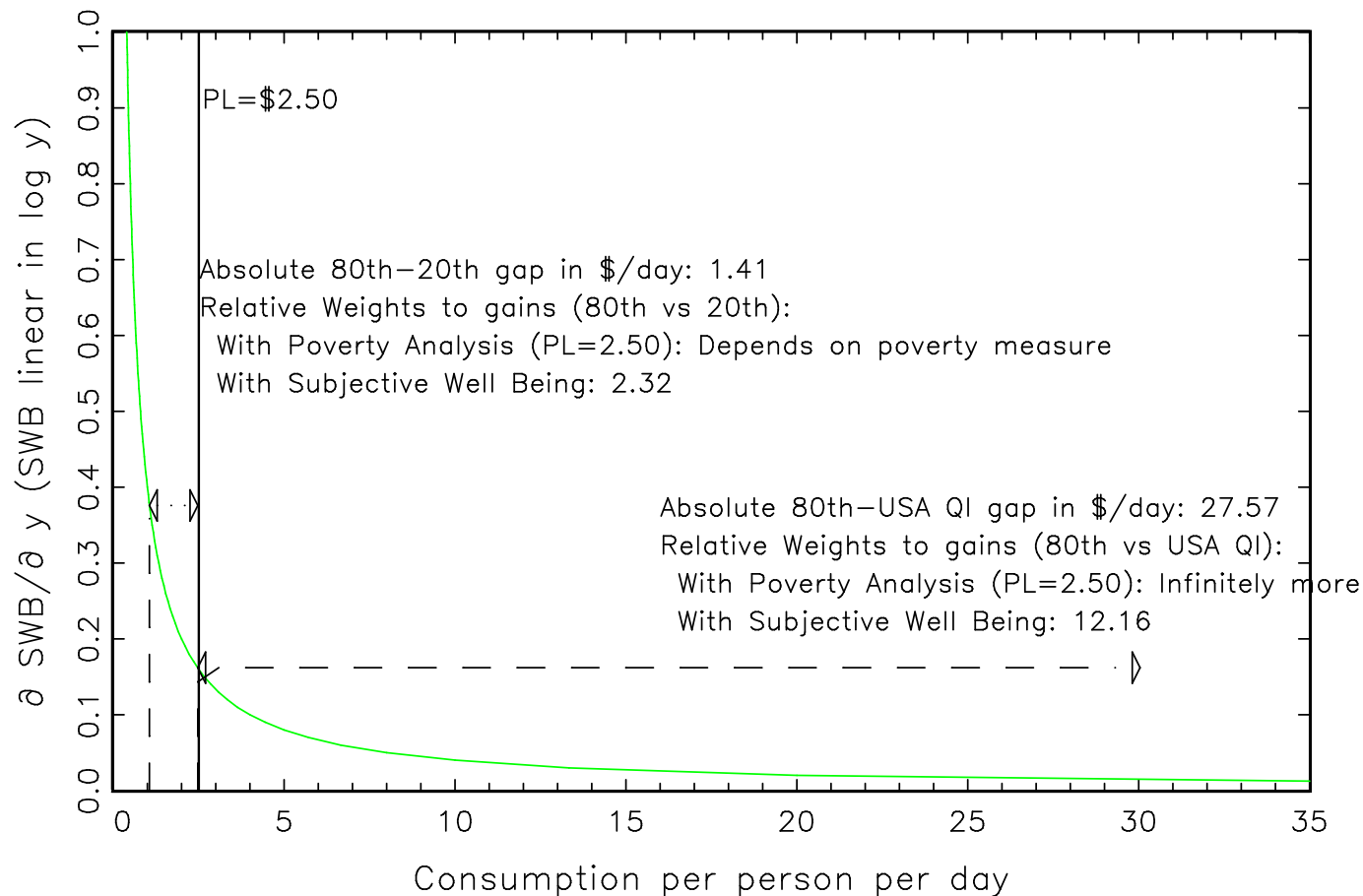
- In “factor world” this type of foreign aid should have high returns (in “factor world” with failures in key markets for capital and exports it could have super high returns).
- Big, ugly, debate with lots of empirical contributions and a *positive* view of the evidence is that FA: MT had positive but not extraordinary returns on average. (The negative view, is the impact was zero).
- Since I am an “A” adherent I think the impact depends on what happened to A—if FA: MT inhibited A (or delayed good A reforms) then it would have at best modest returns.

Foreign Aid: Targeted Programs

- In any model with declining marginal utility (which essentially all economics typically assumes) the *redistributive* case for these programs is massively strong—a “dollar’s worth” of benefit from a program targeted to the poor produces *massive* utility gains relative to rich people keeping the dollar.
- But, the *absolute* gains are small.

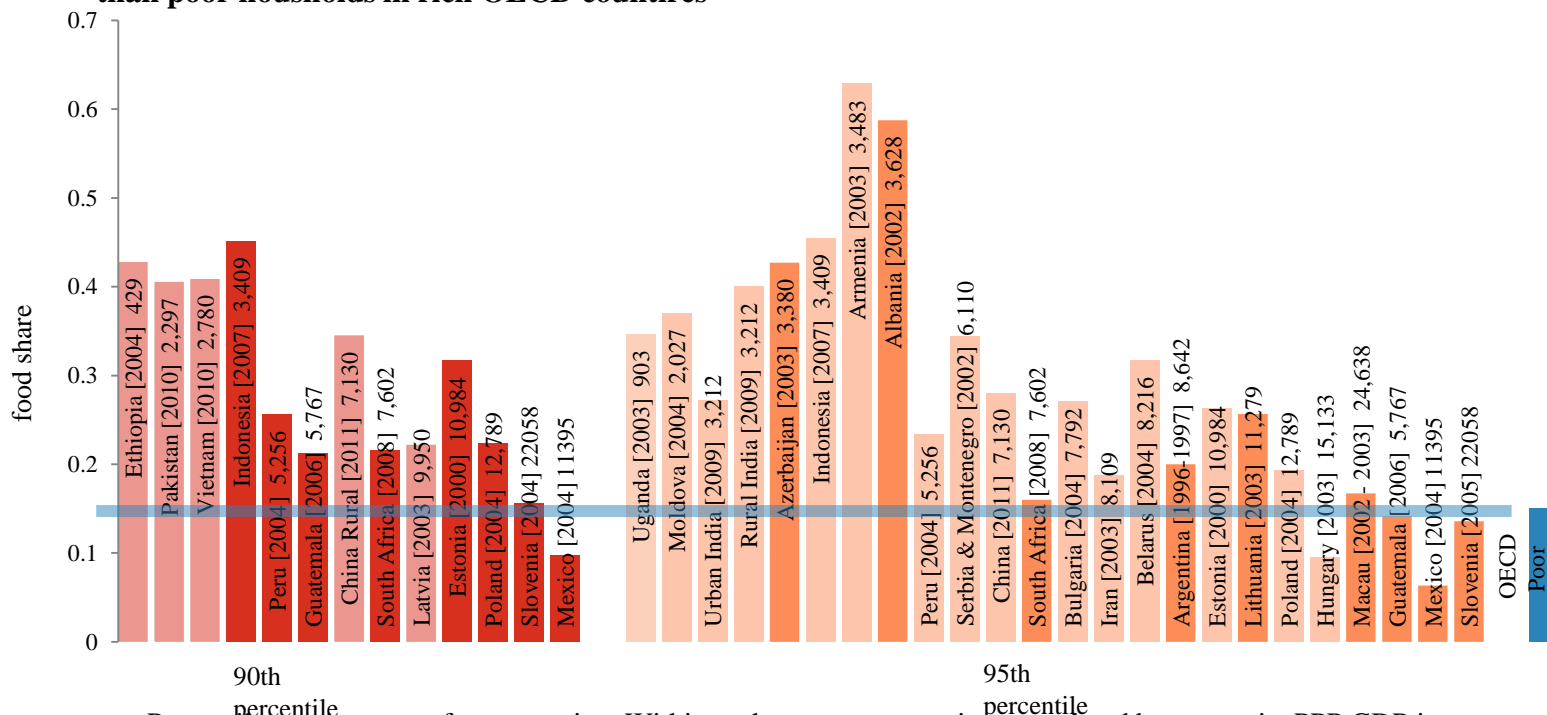
The marginal utility of the *lowest* quintile of US consumption is 12 times higher than the 80th percentile in India—which is 2.3 times as high as the \$2.50 poor

Income and Poverty (\$2.5/day) and Subjective Well Being Gains
India (PovCal data 2010)



The “poor of the rich” are far richer than the “rich of the poor” (Engel curve illustration)—the food share of the 95th percentile in rural India is more than twice that of the OECD poor

Figure 6. The wealthiest households in poor and middle income countries have higher food shares than poor households in rich OECD countries



Percentiles are in terms of consumption. Within each category countries are ordered by per capita PPP GDP in constant 2005 price, noted in the labels. Dark bars indicate food shares predicted from micro data.

notes: Food shares for the grouped data are predicted values from the engel elasticity of each country and the the average consumption for the tenth decile (approximately the 95th percentile) or fifth quintile (approximately 90th percentile) group. Food shares for the micro data are predicted by determining the lower bound of the 90th and 95th

Foreign Aid: Global Movement

- The “development era” since 1950 has seen more progress in nearly all measures of human well-being than all of previous human history *combined*.
- Gains in schooling were 5.1 years per adult versus a stock of 2.0 years in 1950.
- Child mortality fell massively.
- Income rose massively
- Absolute poverty (by any metric) fell massively

The question is “why such huge success?” not “why did these efforts fail?”

Estimating the NPV of growth episode (illustrated for growth acceleration, same procedure for deceleration)

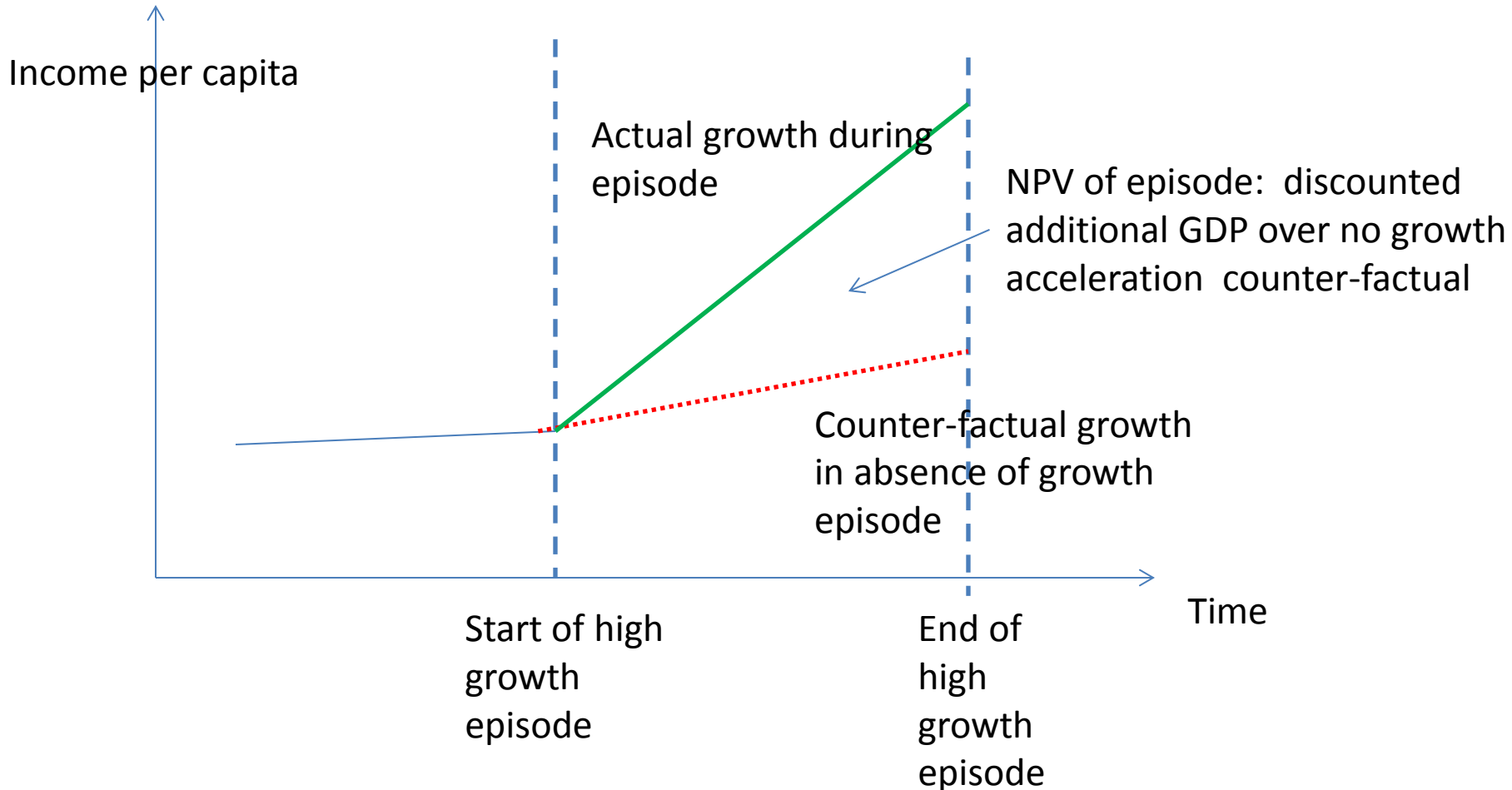


Table 3: Estimated NPV total and per person gains from the largest episodes of growth accelerations are on the same order of magnitude with gains from labor mobility

Country	Year of growth acceleration episode	NPV(@ 5 percent) of output gain from growth acceleration (in billions of dollars)	NPV gain from growth acceleration per person
China	1991	\$11,786.52	\$10,129
China	1977	\$2,655.71	\$2,807
India	2002	\$2,523.38	\$2,426
Indonesia	1967	\$1,119.03	\$9,712
India	1993	\$1,097.62	\$1,238
Poland	1991	\$1,048.22	\$27,402
Taiwan	1962	\$877.15	\$73,593
Vietnam	1989	\$455.44	\$6,914

India gained a combined 3.5 *trillion* dollars in GDP from accelerations in 1993 and 2002 (France's GDP is 2.8 trillion)

Note that in 1988 Robert Lucas tagged it exactly—India did do something and the consequences have been staggering

*Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia's or Egypt's? If so, what, exactly? If not, what is it about the “nature of India” that makes it so? **The consequences for human welfare involved in questions like these are simply staggering:** Once one starts to think about them, it is hard to think about anything else.*

(Robert Lucas 1988)

But we don't know....

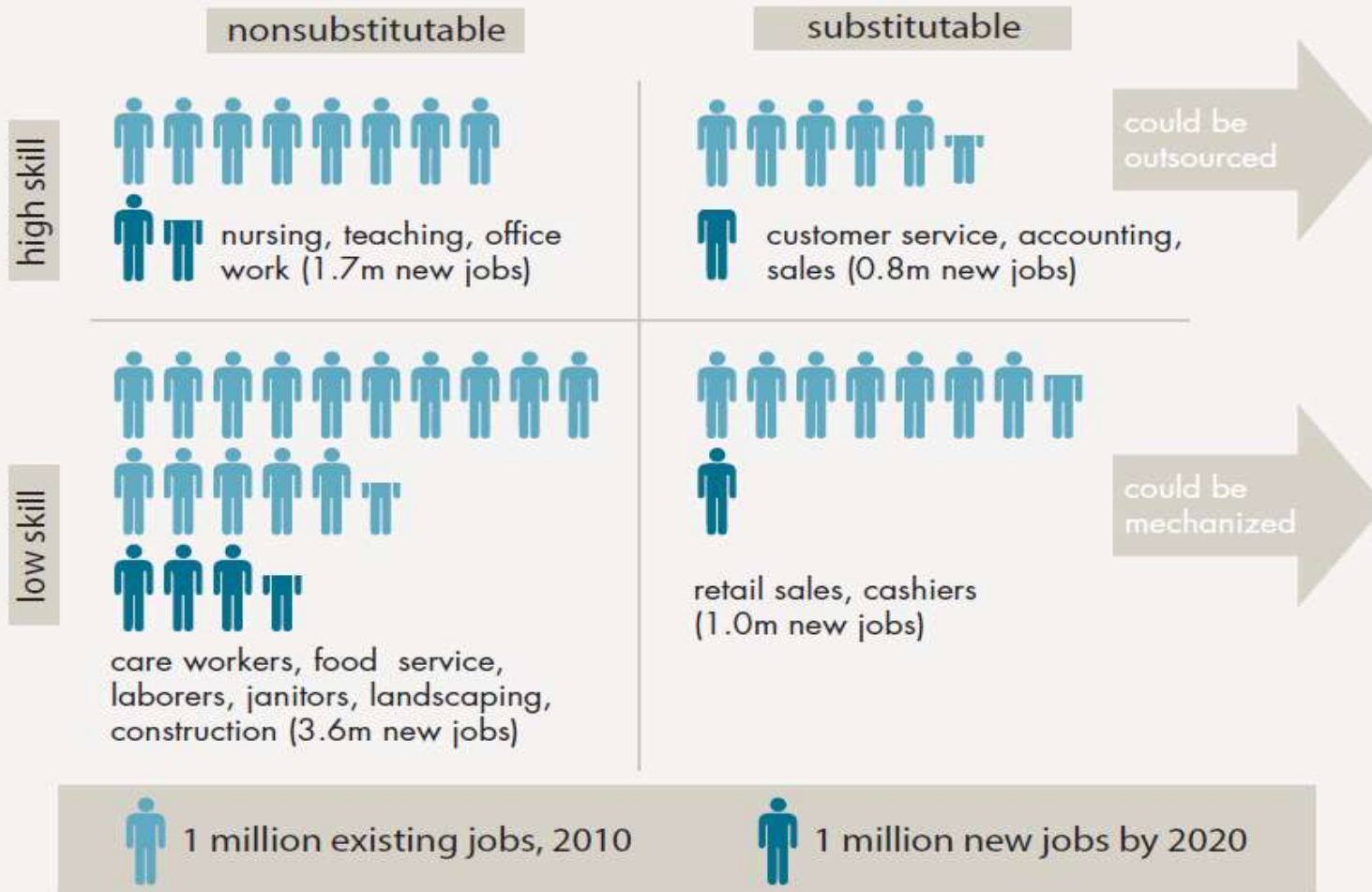
- Clearly any investment that ex ante made any difference to whether or not India gained 3.5 trillion or China gained 14 trillion paid off ex post in unbelievable multiples.
- But...
 - Causal attribution—who played what role?
 - Better calculation of welfare, conditional on costs
 - Can it be done better? More effectively? Or not?

Takeaways

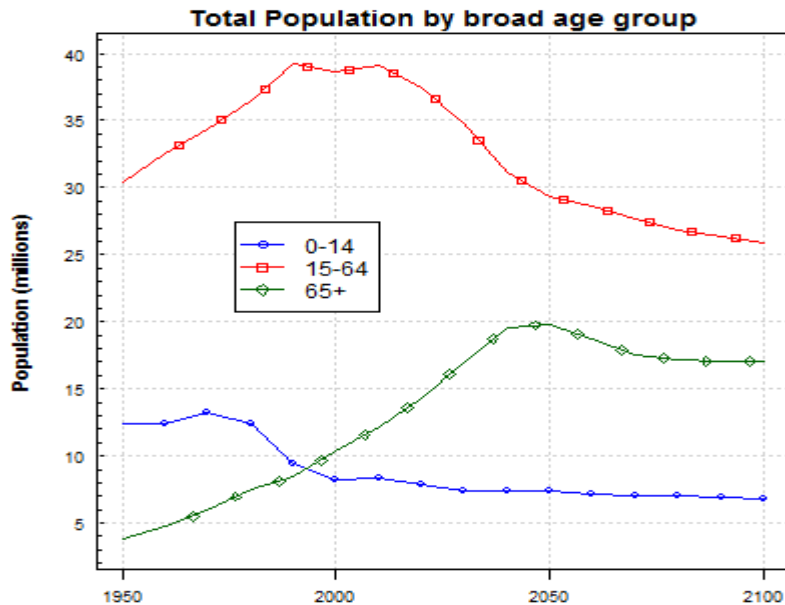
- The “least you can do” of allowing people to engage in mutually beneficial exchanges of labor for wages across borders is 50 times more powerful in raising incomes than the best documented target program...and it is *infinitely* more cost effective: One can generate \$17,115 for (economically) free or \$344 (sustained) with an investment of \$4,545.
- Programs for the poor have massive redistribution impacts (which more than justify it with a modicum of altruism).
- Economic growth is what eliminates poverty and, to the extent, that can be brought about its benefit-cost ratio can be huge: but it is hard to know...

Appendix (for use in Q&A if needed)

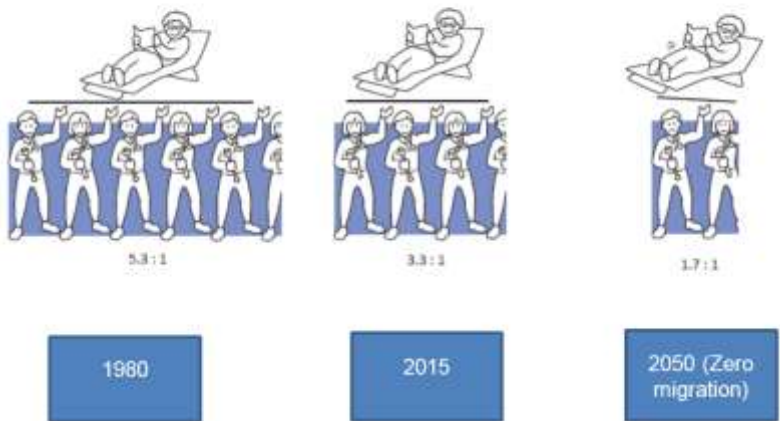
Figure 1. Most New US Jobs Will Be in Low-Skill Work That Cannot Be Offshored or Mechanized, but Fewer and Fewer Americans Want Them



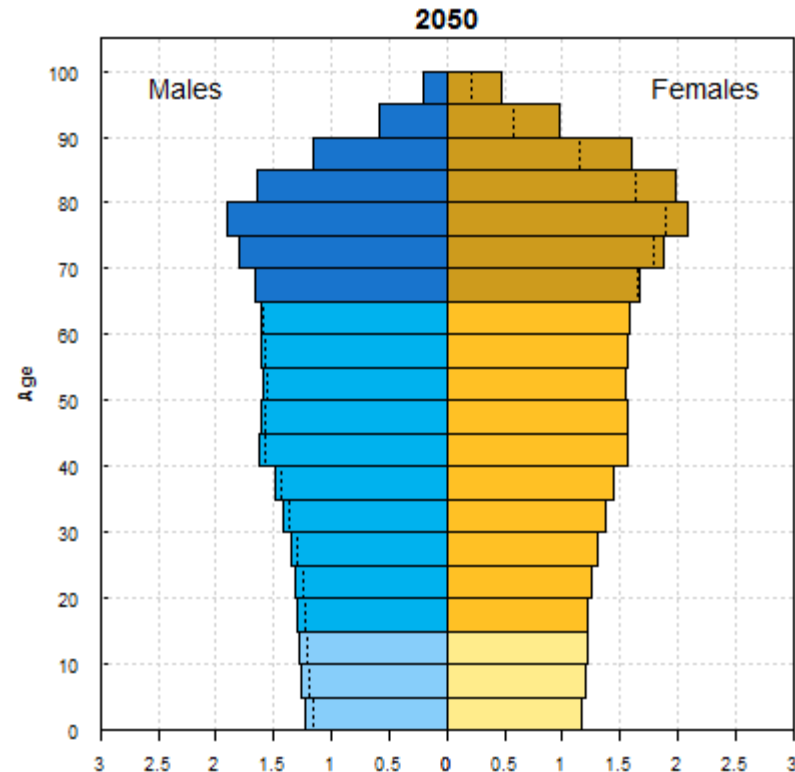
Source: Bureau of Labor Statistics, "Occupational Outlook Handbook: Projections Overview," www.bls.gov/ooh/about/projections-overview.htm



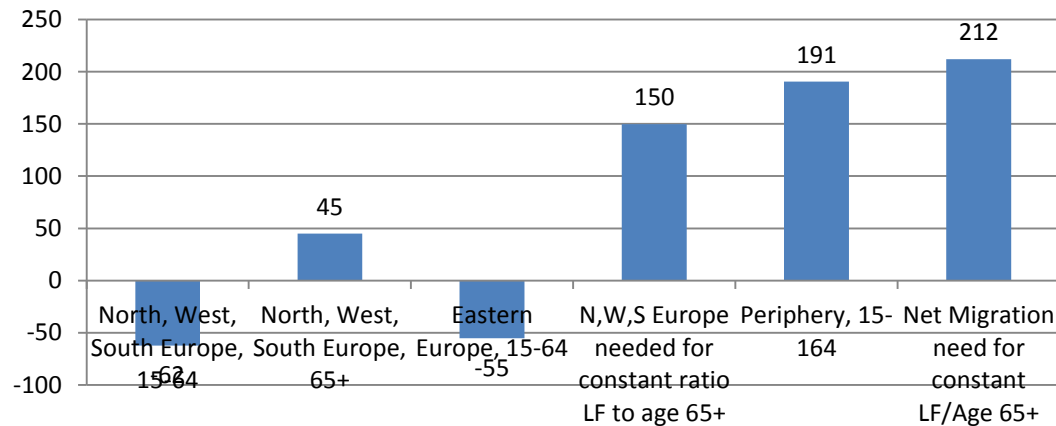
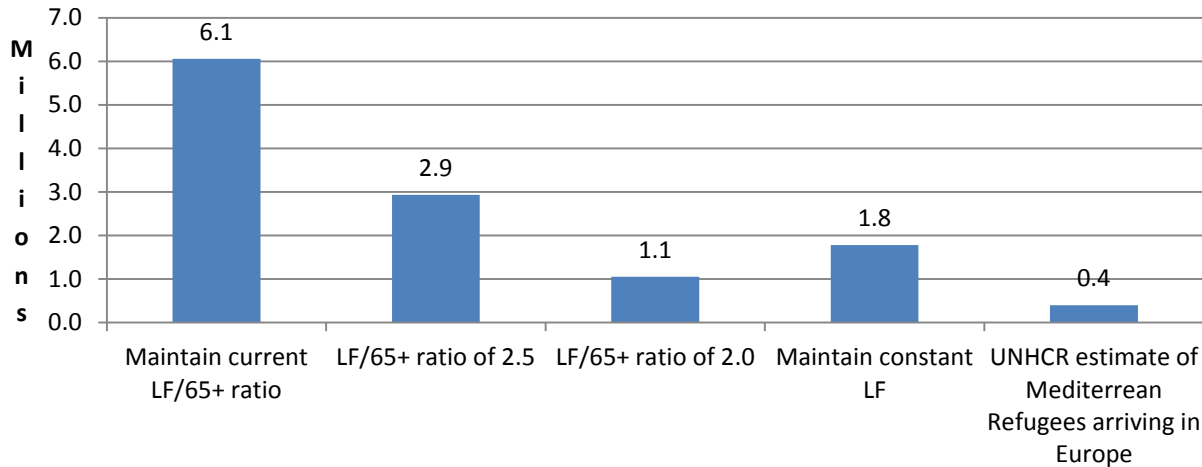
Europe's ratio of labor force aged (15-64) to retirement aged (65 and above) is shrinking rapidly to levels that make existing social arrangements untenable



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



Migrants per year needed for various ratios of labor force to retirement aged population

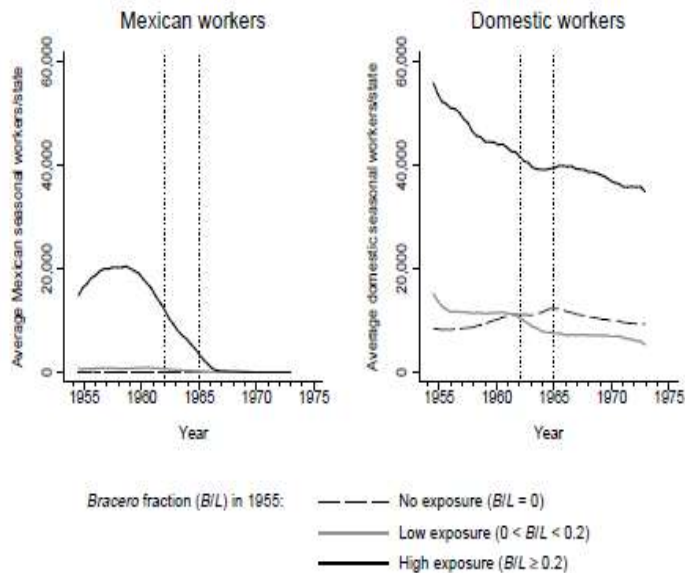


The question for Europe isn't the short run question of "what are we to do with these refugees?" it is the long run question: "what will we do without migrants?"

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)

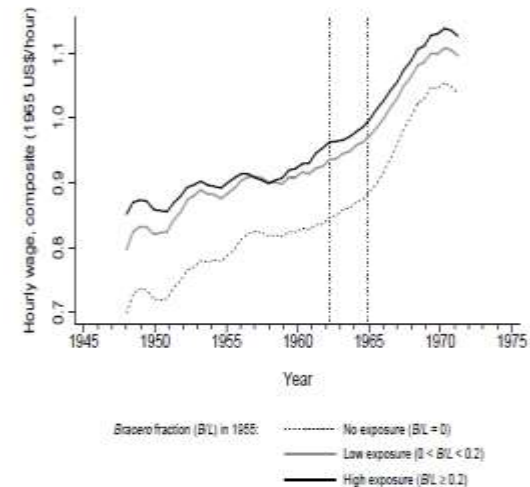
Figure 3: Number of seasonal farm workers employed, state averages grouped by exposure



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, IL, IN, MI, MN, MO, MT, NY, OH, 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

Who is taking American jobs? Me (and you)---we Harvard types are the new low skill workers in America



The risks/costs of migration to host countries		Type of migration		
		High skill, permanent	Low skill, temporary	Refugees
Economic risks	Wages will go down, natives will lose jobs, productivity will be undermined			
Cultural assimilation risks	Immigrants will do things that irritate natives			
Political risks	Immigrants will shift the balance of power or “take over” the politics			
Security risks	Immigrants will cause harm			