

Global Poverty: Place, Productivity or Program

Lant Pritchett

Oxford BSG

February 13, 2019

Solve global poverty?

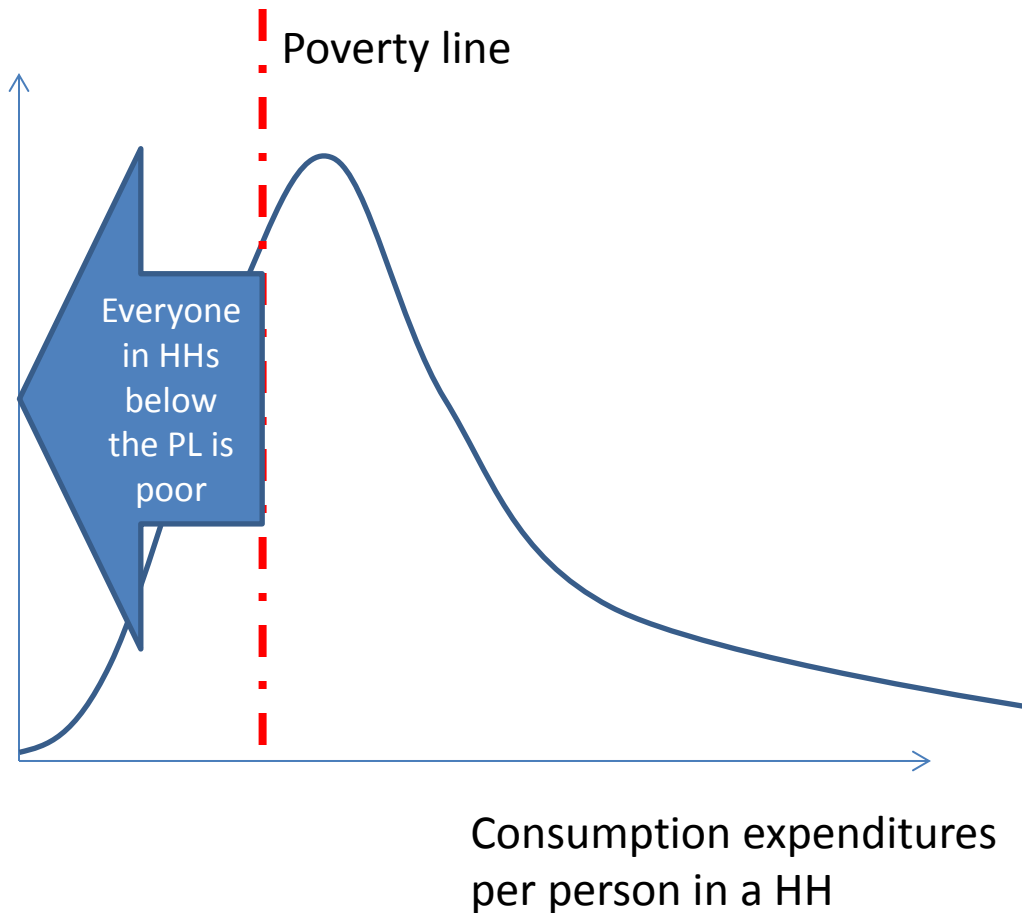
Option	My guess of the percent of attention (broadly speaking) in development discourse (popular and professional)
Programs targeted at the poor (e.g. micro-finance (savings, credit, insurance), social enterprises, entrepreneurship, (gender focused), livelihoods, livestock, job training, cash transfers, empowerment, provision of specific goods/services (e.g. water, sanitation), targeted scholarships, etc.)	80%
Broad based economic growth	19%
Reducing restrictions on the mobility of low-skill labor	1%

My argument is that this allocation of time, attention, research, resources is *exactly* wrong

All of the difference in poverty across countries is accounted for by differences in the median (middle point) of the distribution of consumption expenditures. Broad based growth is *necessary* and *sufficient* for eliminating poverty

For a given level of income across countries *far and away* (by orders of magnitude) the most reliable and cost-effective means of reducing poverty is reducing existing restrictions on the mobility of low skill labor

The most common measure(s) of “poverty”



Three standard measures:

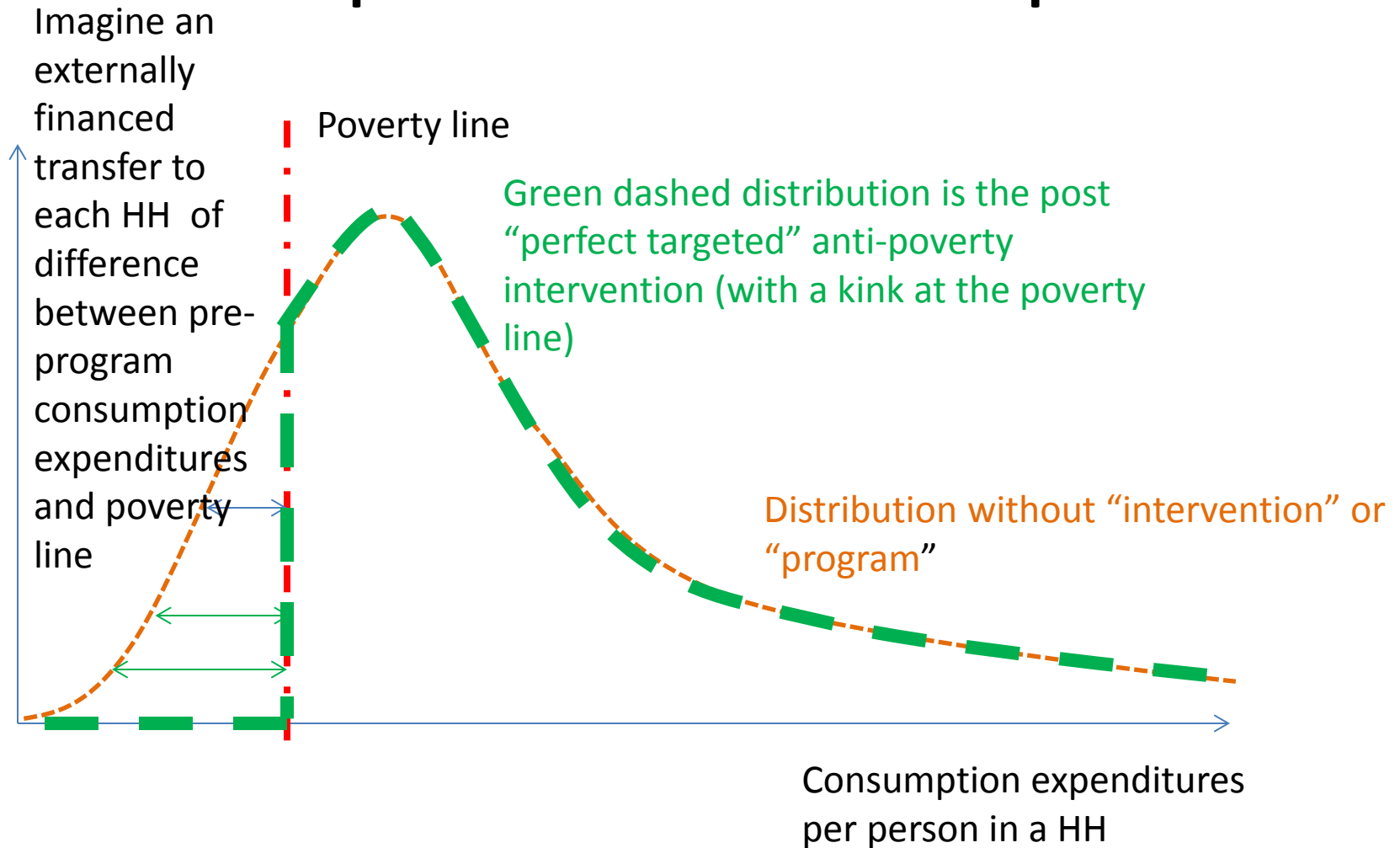
Headcount: number or percent in poverty

Gap: money amount of gap from existing incomes to poverty line

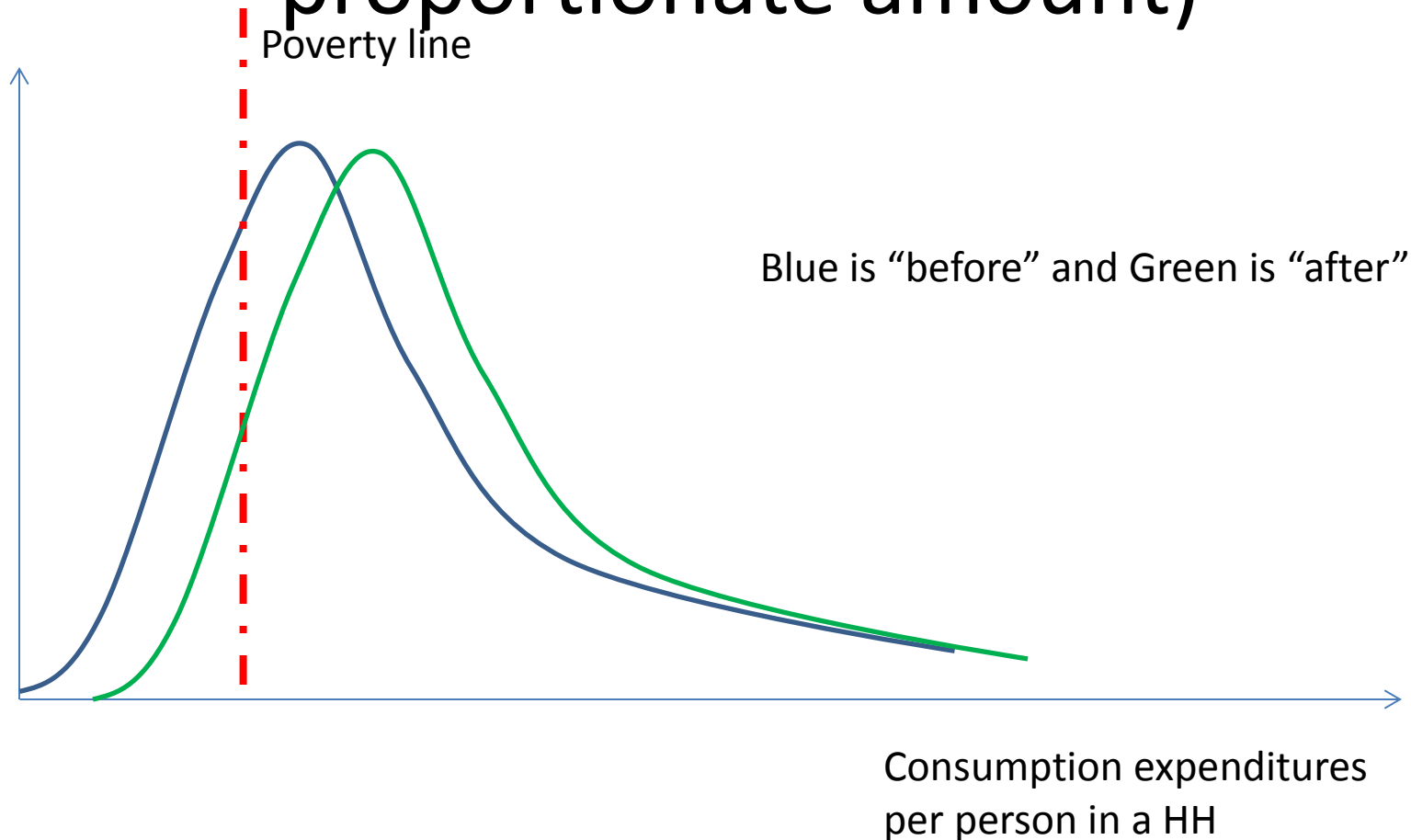
Intensity: Square of the distance to poverty line

(technically, in continuous distributions these three are weighted partial integrals of the distribution of consumption expenditures)

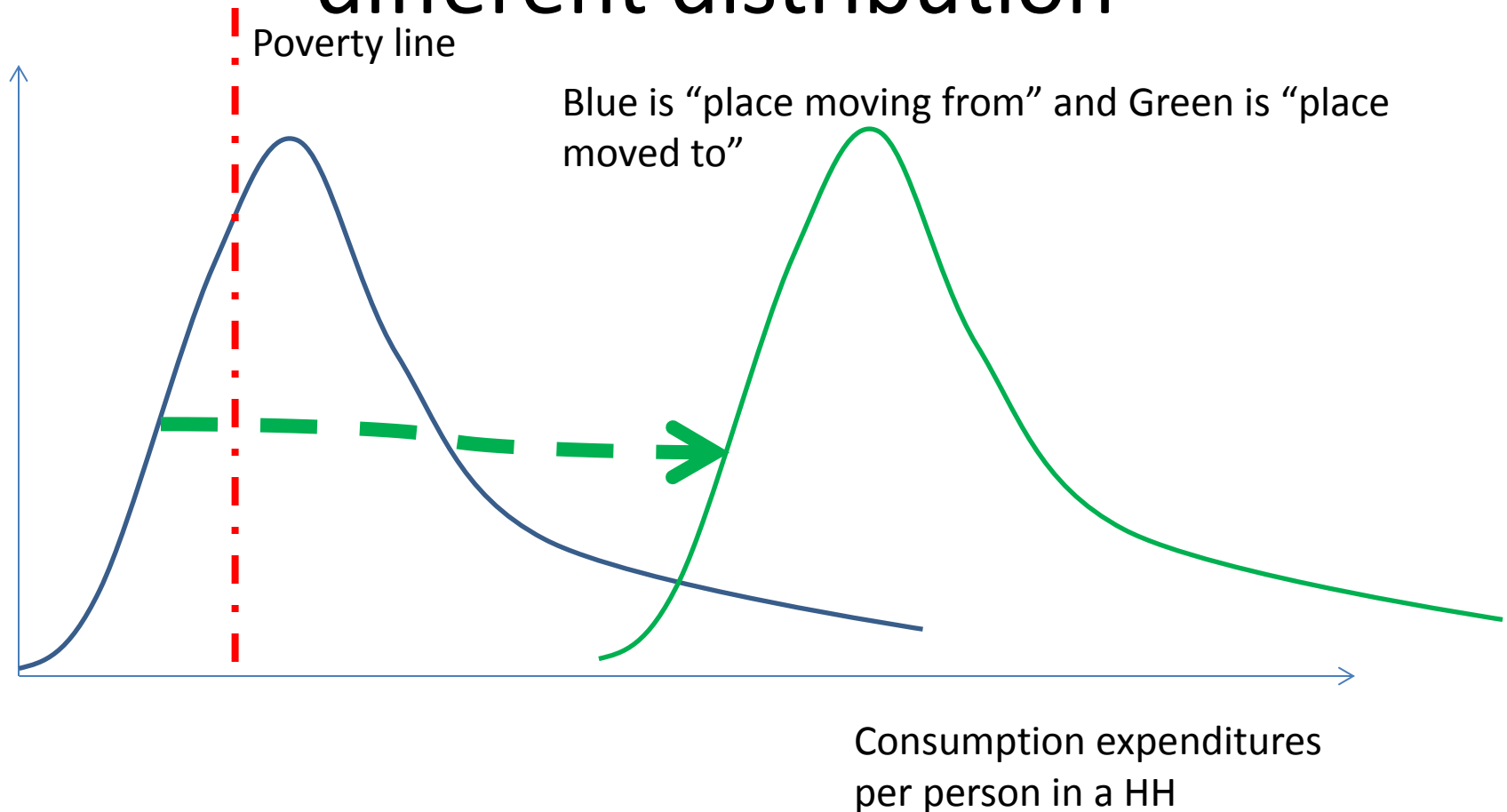
Option 1: Kink it up



Option 2: Uniform shift to the right (everyone increases by the same proportionate amount)



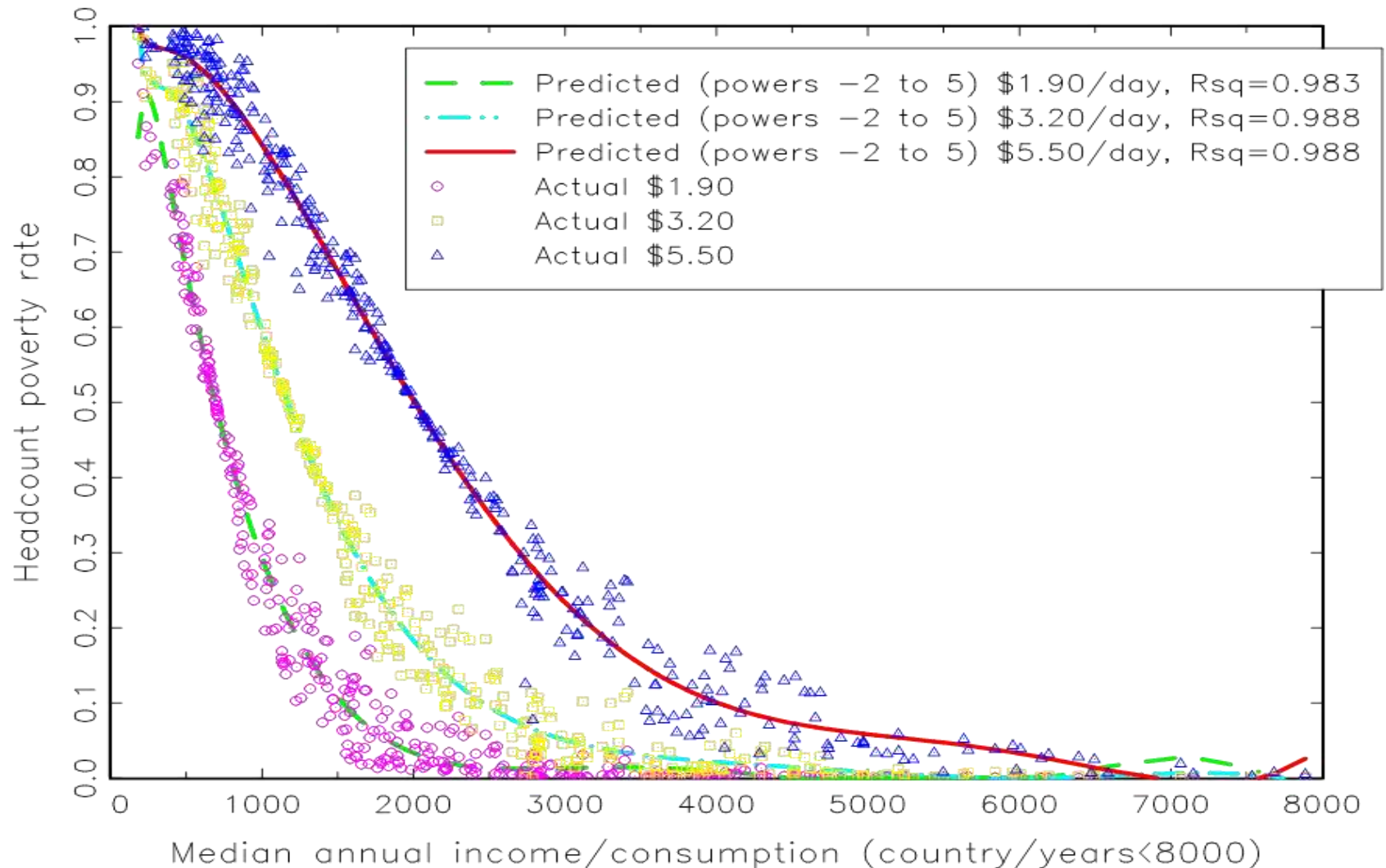
Option 3: Change place: person/HH shifts to a different place with a different distribution



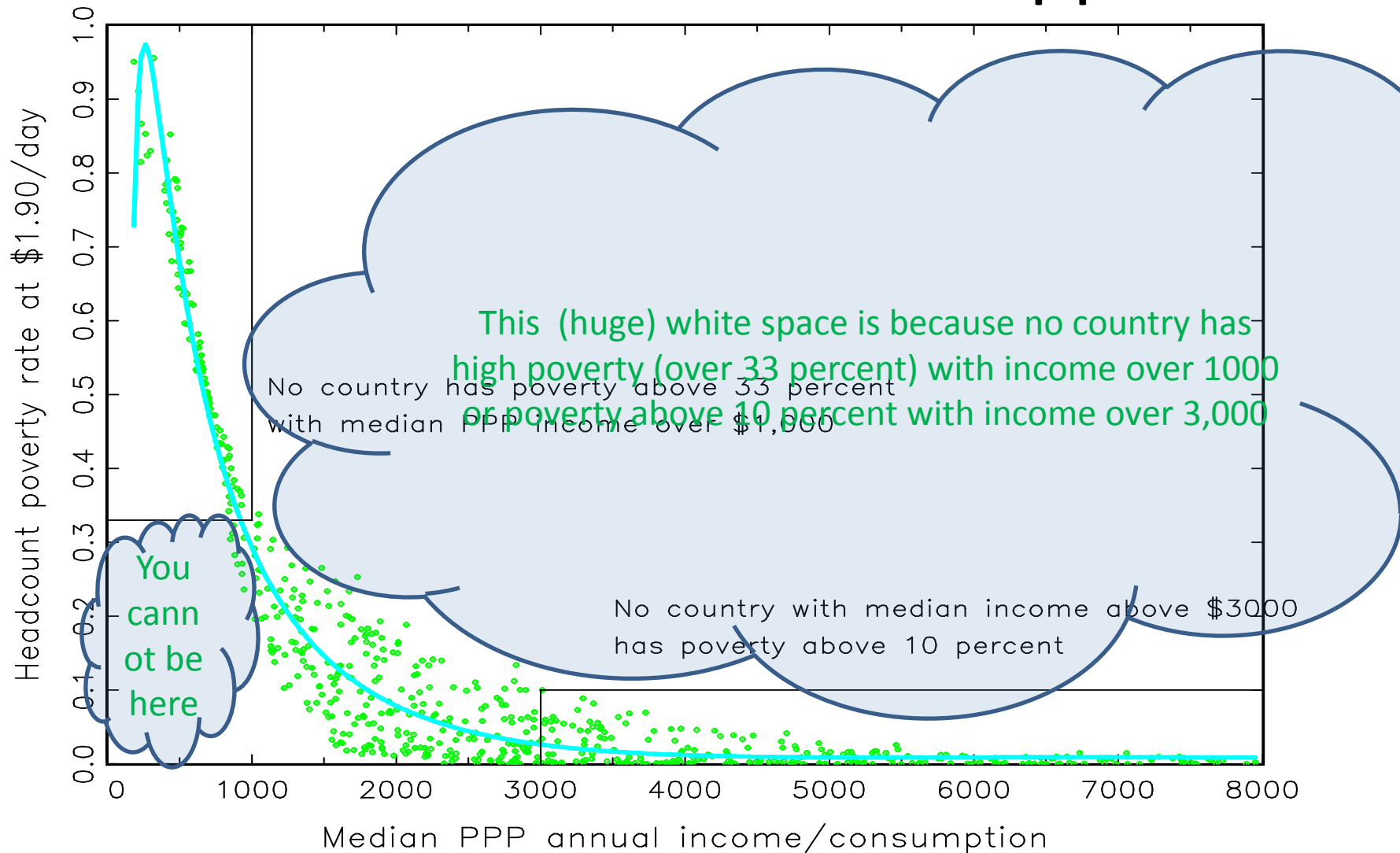
That was set-up, core of the presentation is three empirical facts (each with a cool graph)

- First, *all* of the differences across countries in the level of headcount poverty are accounted for by differences in the median of the distribution
- The best gain from *in situ* targeted programs is small and costly to get
- The gains from low skill labor mobility are massive—and roughly, can be, free (or better) to the receiving country and so are cost-effective as mobility (can) pay for itself

The correlation of actual headcount poverty and poverty predicted from the median of the distribution is .994



“White space” in the graph are combinations that never happen



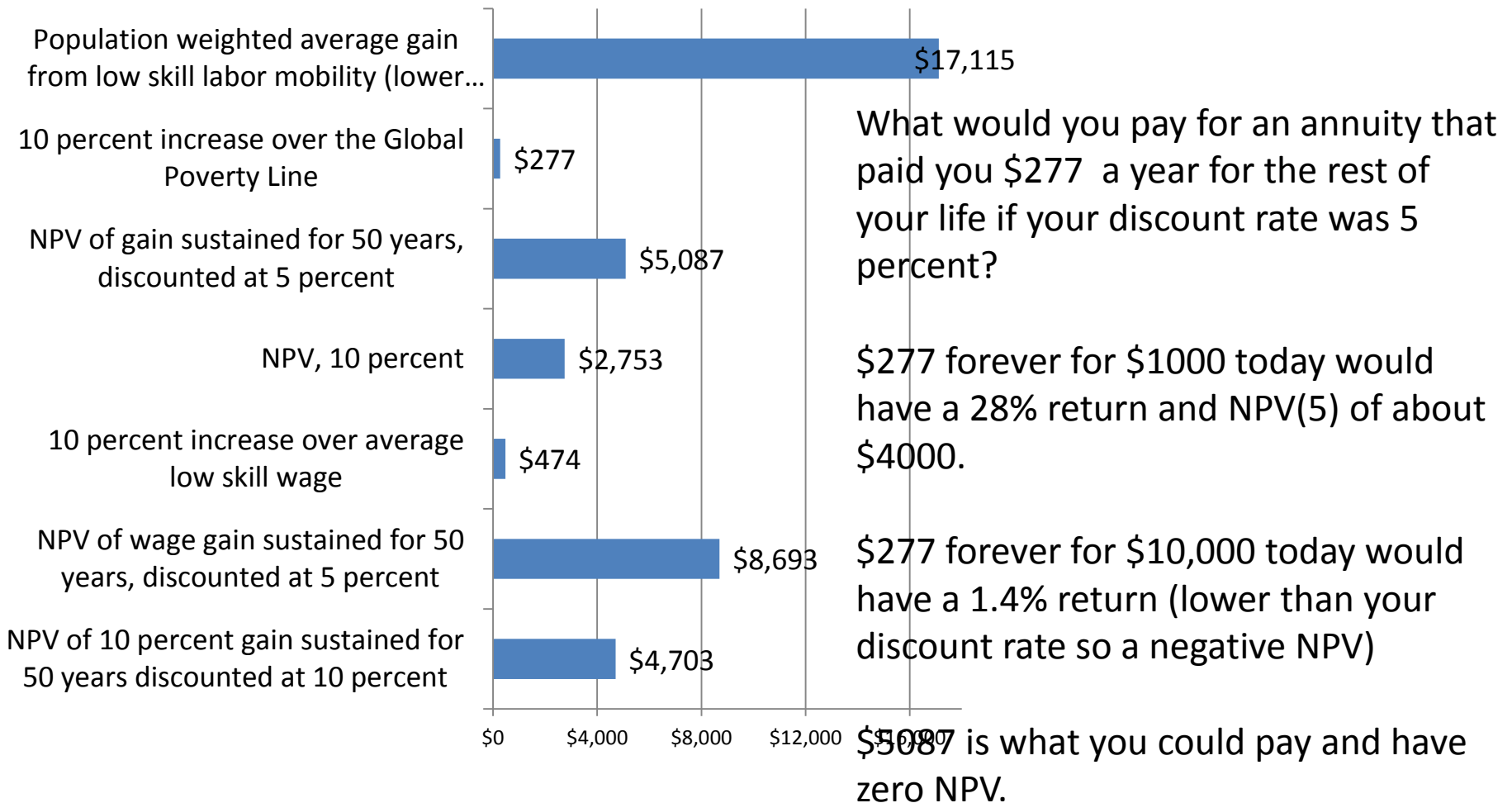
At most 1.7 percent of the differences in headcount poverty rates can be attributed to *anything* about a country, conditional on the median

- Features of a country's politics—democracy or not, left or right ideology
- “Policies” generally
- Inequality
- And the net effect of variation across countries in the impact of existing anti-poverty programs on headcount poverty—of *all* the types that are widely discussed and debated, *anything* that might have shifted the distribution that affected poverty—are a *sub-set* of this 1.2 to 1.7 percent of the variation.

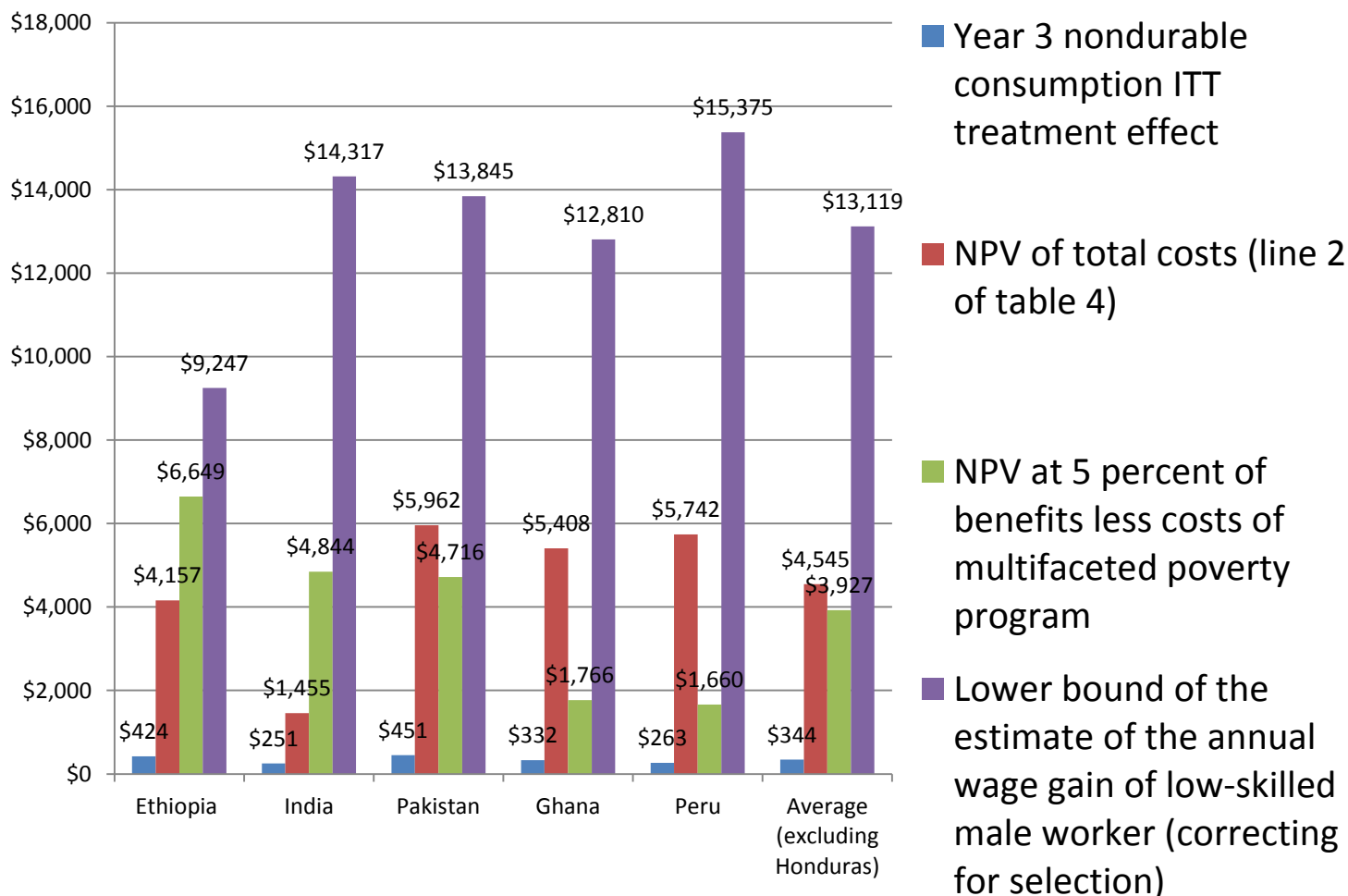
What is going to be the best you can do for the poor with direct targeted income/well-being enhancing programs in place?

- 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 historic 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 return of 10 percent off of a low base in a small number



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

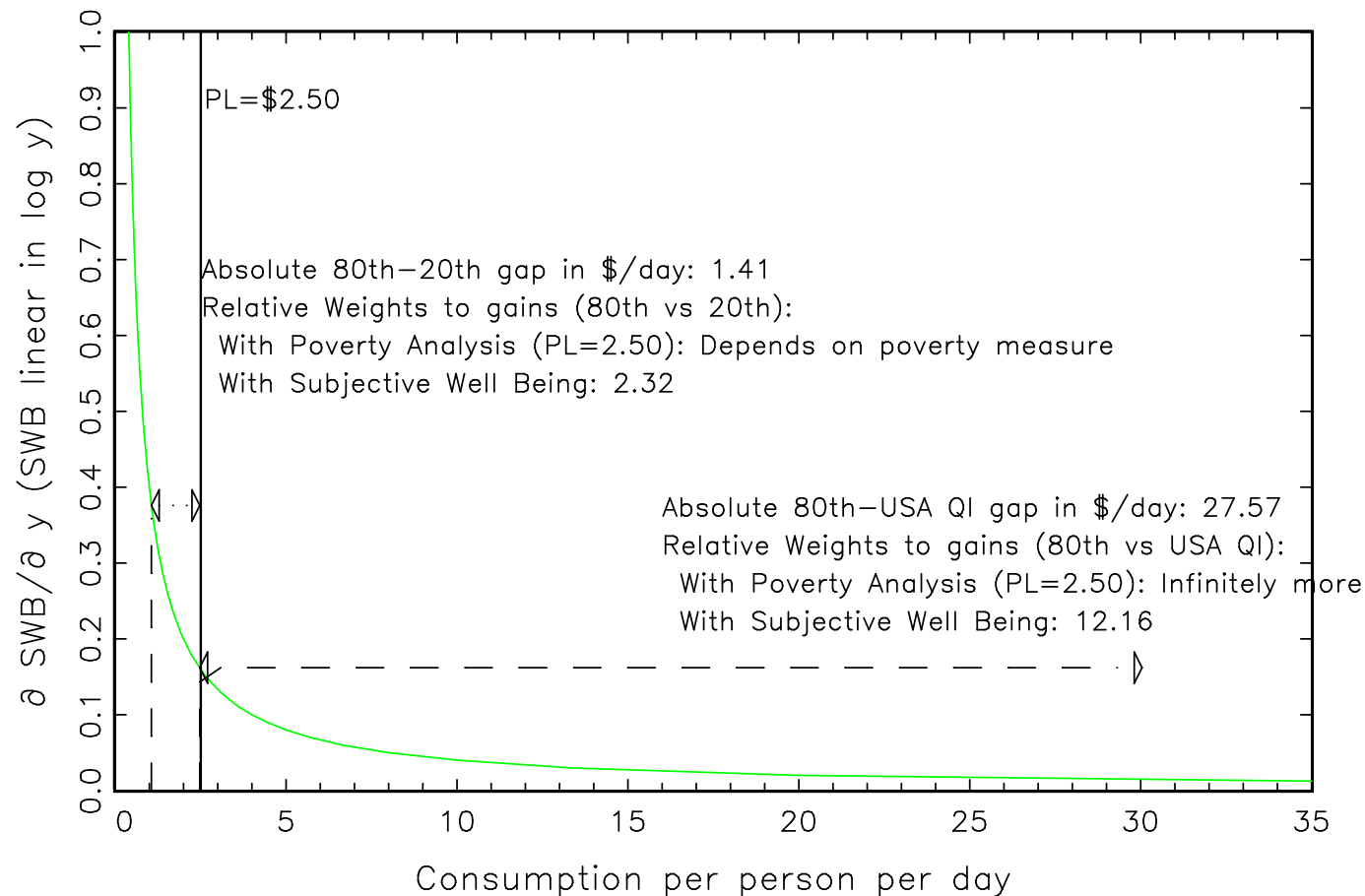


The “best you can do”: among anti-poverty programs think of “cash” as the “index fund”

- Many anti-poverty programs do not outperform just giving targeted HHs cash because the costs of delivering interventions are often high and the gain of intervention versus cash low (or negative)
- Even the “best” programs (like graduation) have a return that is modest (around 7 percent) and only debatably beat cash.
- This means would should expect a dollar of gains to the poor should cost a dollar (which, given declining marginal utility of income could be a terrific thing)

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)



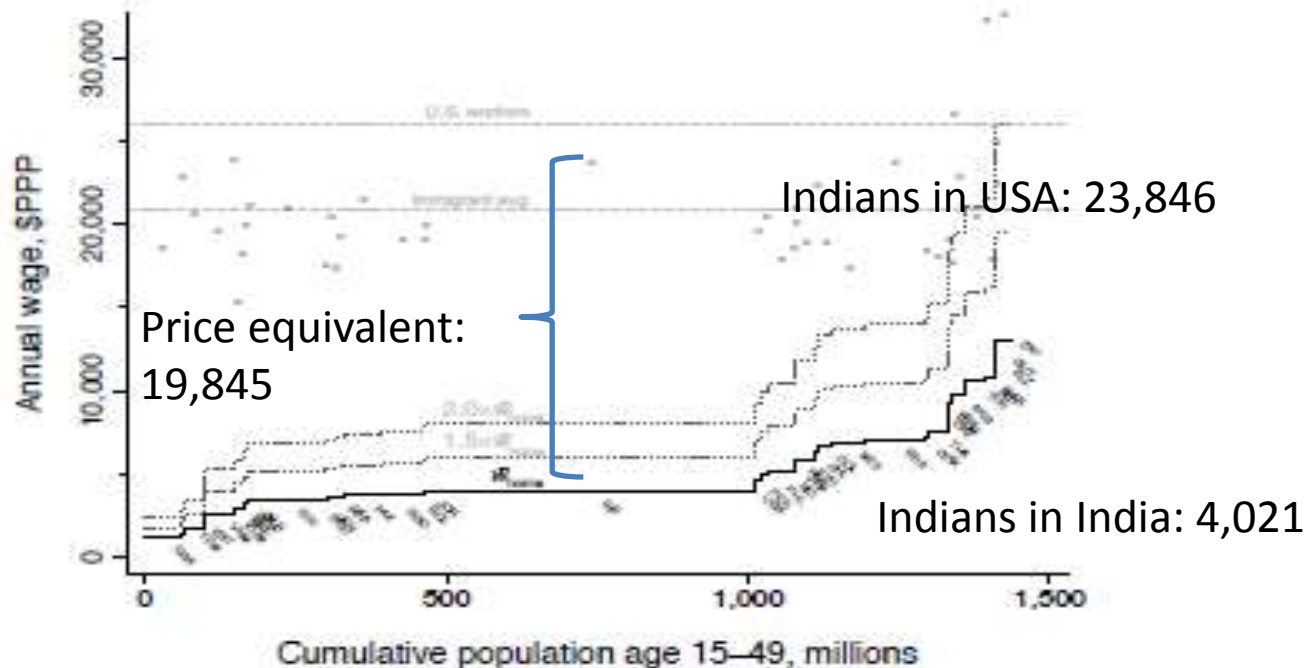
The least you can do for the global poor is way better than the best you can do

The “price equivalent” of border based restrictions on labor

- 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 tariff 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 price in the receiving country

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

Figure 5: Upper envelope of wages-forgone curve ($\bar{w}_0$) by working-age population



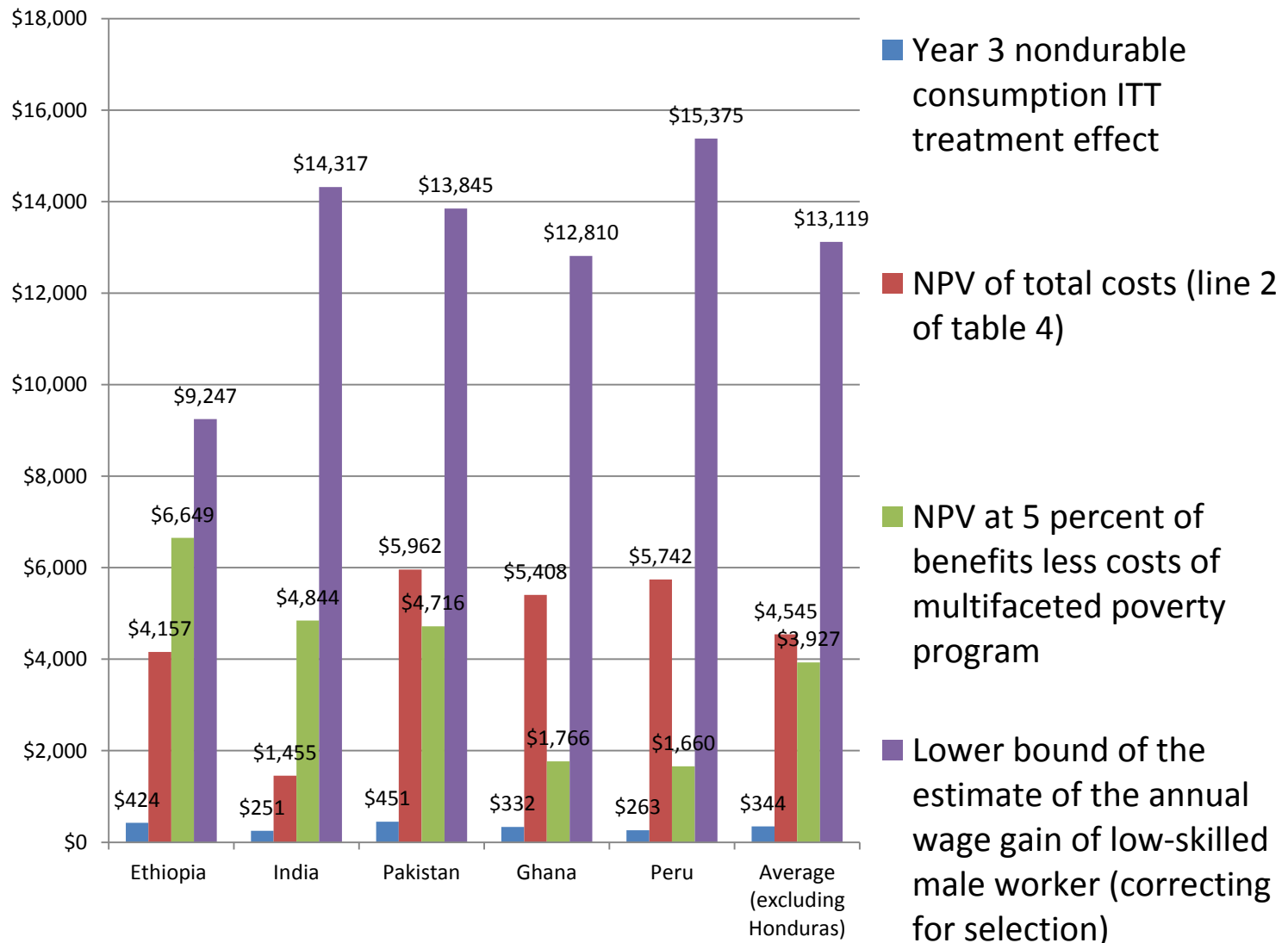
For 16–59 year-old male workers with 9–12 years of schooling acquired in the home country. Upper envelope of wages forgone ($\bar{w}_0$) estimated using lower bounds on R from Table 1 col. 2: $\bar{w}_0 = w_{US}/R|_{s=1,11-13}$. Single dash is wage if immigrant in U.S., born and educated in each country 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 “typical” 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.

The *lifetime* NPV of the proven “best you can do” is less than a third of the *annual* wage gain from allowing workers to move



This relaxing restrictions on labor mobility is the “least you can do”

- 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

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

Not enough A (TFP) to be productive



- 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”

So why is labor mobility not on the global or national agendas as an anti-poverty program?

- Because rich country voters hate it.

(that's it, nothing else)

Is there a “goldilocks” approach?

DF,LS,R,LM

Is there a political possibility of more:

- Development friendly (including human rights of movers respecting)
- Low-skill
- Rotational

Labor mobility?

	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)				

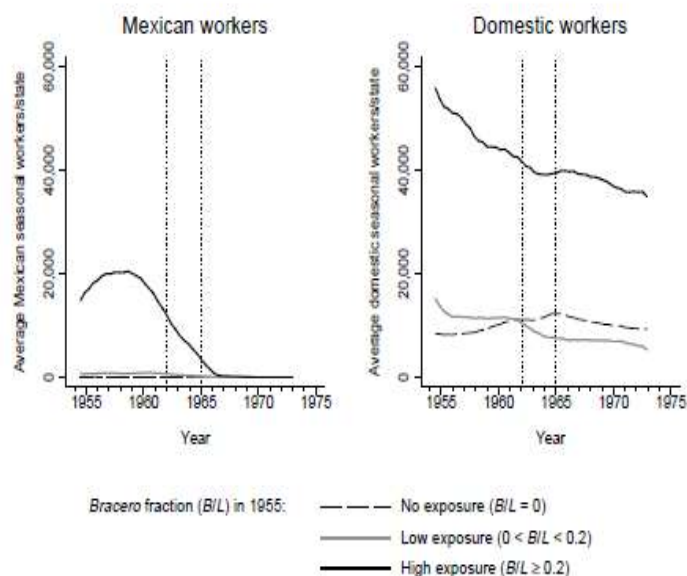
The “economic risks” to host country natives from low skill mobility are mostly BS smoke screens to avoid the real issue

- There is amazing and near complete scientific consensus about impact of low skill mobility on host country wages—zero impact on average, and even zero impact on wages of low skilled.
- The “fiscal costs” are *design features* of a program of labor mobility, not “facts” (or, the existing facts about fiscal costs of migrants are design contingent)

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)

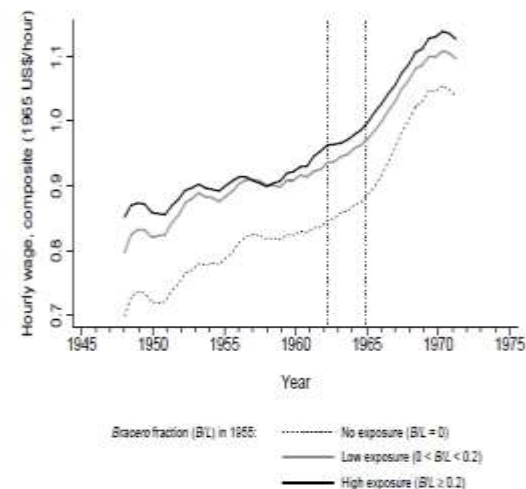
Figure 3: Number of seasonal farm workers employed, state averages grouped by exposure



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)

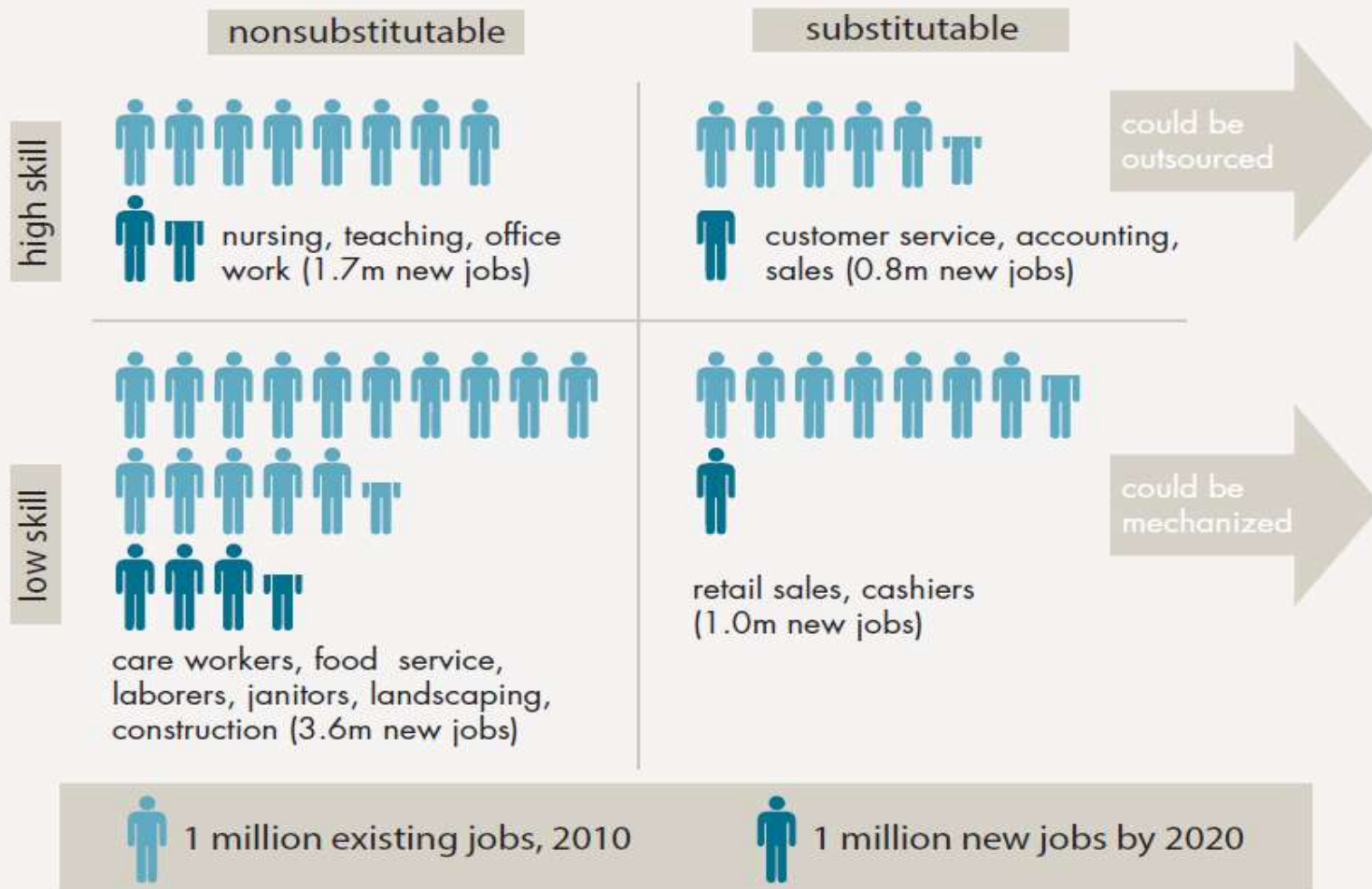
Figure 2: Quarterly average real farm wages in states grouped by exposure to Bracero exclusion



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, NV, 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, OK, SC, VA, VT, WV.

Source: Clemens, Lewis and Postel, 2017

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

“We asked for workers. We got people instead.” (Max Frisch)

- The main concerns with DF,LS, R, LM (development friendly, low skill, rotational, labor mobility) are balancing “way of life” concerns and “morality” concerns
- “Way of life” concerns arise from the fact that people are not widgets or tons of steel but are people...and people, as people, are fundamentally tribal and like “us” and don’t like “them.”
- “Morality” concerns are making sure that the basic human rights (and contractual promises) of movers are respected.

“Goldilocks” approach

- Create a “trade association” of actors (governments, employers, labor brokers, NGOs, workers) engaged in existing low skill labor flows, starting with existing corridors of major movement and a ‘coalition of the willing’ (as existing international/global efforts have too many blocking vetoes).
- This trade association will do what many such associations do:
 - Create dialogue around what are “best practice” or “achievable practice” ways of engaging in DFLSRLM (e.g. voluntary engagement in accreditation among universities)
 - Provide low-cost services in arbitration and enforcement of agreements as a means to protect worker rights
 - A platform for the promotion the industry: documenting benefits.
- “The people who move people”