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Alleviating Global Poverty

Labor Mobility, Direct Assistance, and Economic Growth

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Any citizen of the West may contemplate the question: What could we do to alleviate global poverty? "The *least* you can do is *better* than the *best* you can do" is the right answer. "The best you can do" is address "global poverty" in the ways sought by philanthropists, who want to give directly to the poor. These ways include funding the types of concrete support and assistance channeled directly to individuals, which would produce the best outcome in alleviating global poverty. This is the best you can do if you want to fund actions that directly help people in a given place. It turns out the best you can do to improve people's self-assessed well-being is, roughly, to give cash. One might have supposed that there were investments or programs for the poor that have superhigh economic returns, but after decades and decades of research, there is very little empirical support for that idea.

The "least you can do" is simply to allow individuals to engage in the perfectly ordinary economic transactions of taking a job and getting paid a wage. But for that to happen, countries in the West must lower their enormously high legal barriers to the mobility of low-skilled labor across national borders. Yet this is still "the least you can do" because labor mobility is win-win, according to most economists. The people who move to the West earn higher wages than they would in their home country because they are more productive in the Western country than they were in their home country, so total output goes up sufficiently and potentially (with the right design) makes everyone better off.

These alternatives offer two ways to help the global poor. One is for rich people (in a global sense) to give a dollar and generate roughly a dollar's worth of benefits for the poor. The other way is for rich people to allow those who would like to work at the prevailing wage of the host country to do so and not to deploy active coercion to prevent them. This reflects the poor person's contribution to production and hence has zero net cost to the host country (or it can be made to have zero net cost with the right design). Of course, if a dollar were given to a poor person, it could produce vastly more human well-being than a dollar spent by the richer person because the marginal utility was much higher for the poor person, but this redistribution effect is the same for both options. This means that, at least in current conditions, the least you can do—which is simply to increase the freedom of people who want to work and those who want them to carry out that mutually beneficial transaction across national borders by working—is better than the best you can do, which is to try to directly help people in poverty without allowing them to move toward opportunities.

Many of the differences in labor productivity among countries are explained by differences in total factor productivity

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(TFP). Transmitting TFP from country to country has proven to be difficult. This implies that labor with the exact same intrinsic productivity will have much higher productivity (and hence justify a higher wage) in a high-TFP country than in a low-TFP country. But by and large, rich countries have passed extraordinarily strict regulations on the movement of unskilled labor. The price of the barriers to low-skilled labor is now 100 times greater than the price of the barriers to the movement of goods. A relaxation of these restrictions could produce the largest single gains against global poverty of any available policy, program, or project action. And since these gains for movers are (mostly) due to higher TFP, which (at the margin) is a "public good" in the host country (because it is nonrival and nonexcludable), these gains are essentially free to the host country.

One thought for addressing the injustice of conditional birth-based discrimination that keeps people in low-productivity places is to imagine that the citizens of rich countries will carry out philanthropic activities that raise the incomes of the global poor in situ. But because they are in low-productivity places, it will be costly to raise their income in those places. For example, across five countries a best-in-class antipoverty program on average produced $344 in annual gains in income for the poor with $4,545 in costs. Extrapolating from this fact, it would require an investment of $226,000 per person to produce the annual gain of $17,115 created by allowing a low-skilled worker to work in the United States—those same gains could be produced essentially for free by relaxing barriers to mobility. The "best you can do" in situ is much less effective than the "least you can do," which is to let people work and get paid a wage that reflects the value of their work.

That said, sustained rapid economic growth in developing countries, which is sustained by improvements in TFP, can also produce enormous cumulative gains. And avoiding growth collapses and stagnation can prevent enormous losses. Even though traditional measures of the country-to-country transfers of resources via foreign aid do not by themselves appear to be responsible for producing most of the observed differences in economic growth, investments that could bring about more sustained growth (which means more sustained accelerations and fewer sharp, extended decelerations) could also have high returns. There is no reason why more labor mobility and sustained economic growth cannot go together to improve well-being.

NOTE:

This research brief is based on Lant Pritchett, "Alleviating Global Poverty: Labor Mobility, Direct Assistance, and Economic Growth," Center for Global Development Working Paper no. 479, March 2018, https://www.cgdev.org/publication/alleviating-global-poverty-labor-mobility-direct-assistance-and-economic-growth.