Of 100 Haitians who aren't poor
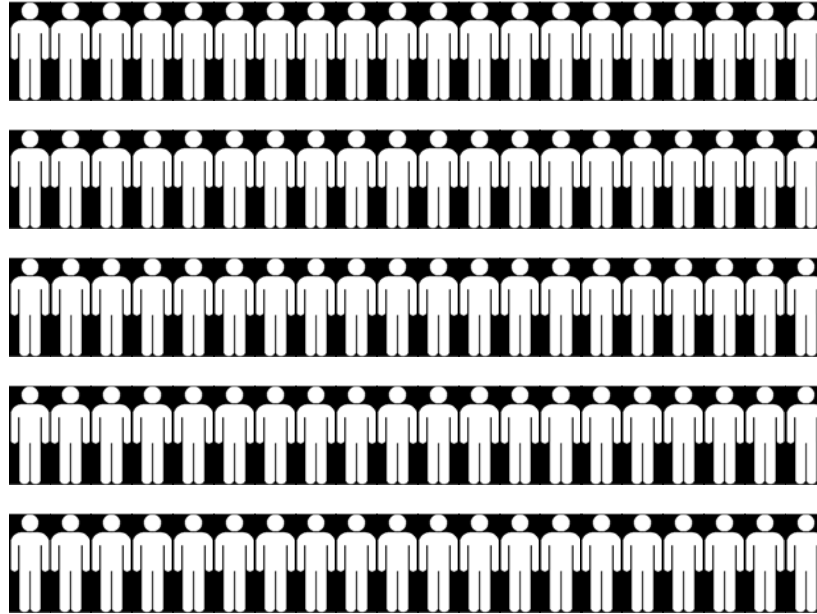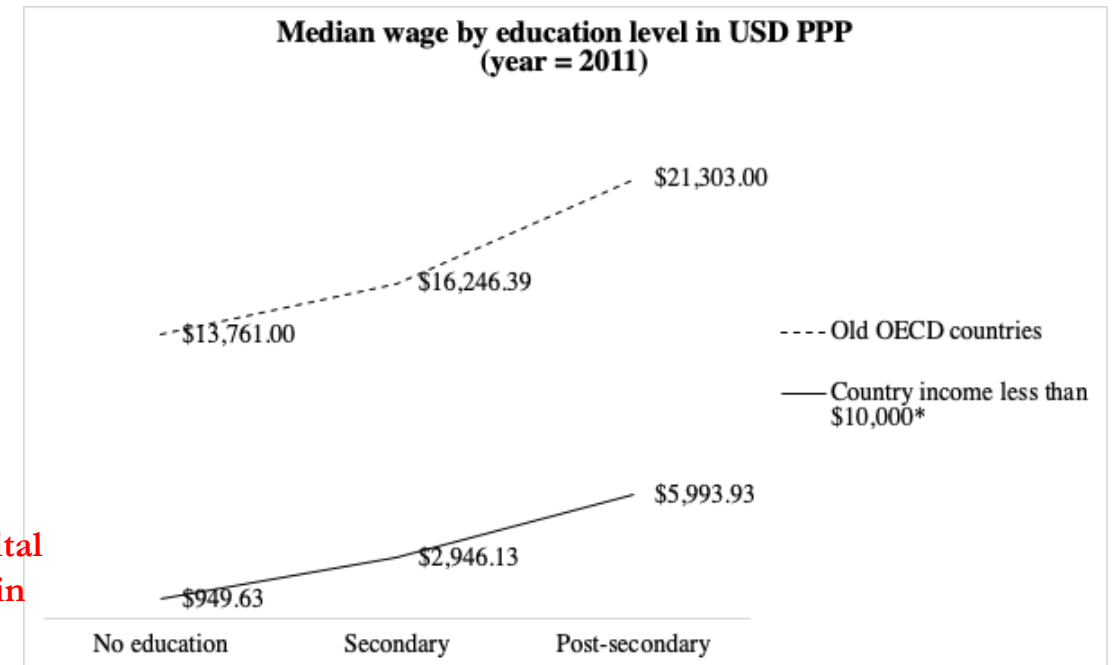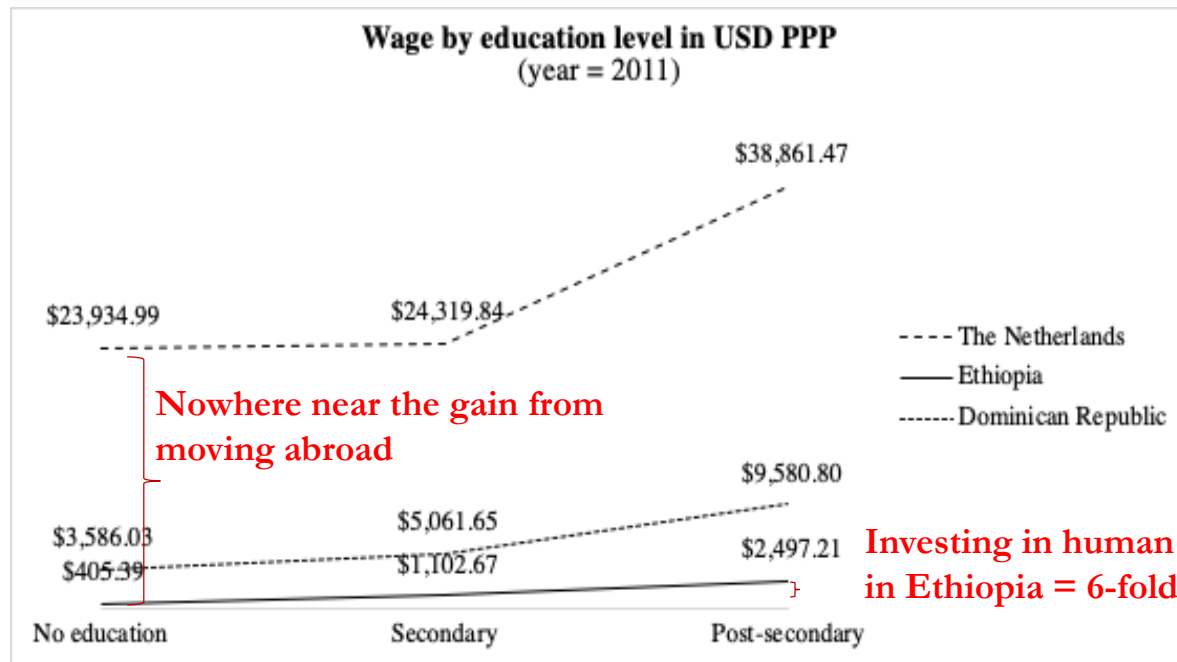
A tale of two forces making labor mobility irresistible

Massive wage gaps across workers in rich vs. poor countries

Demographic change in OECD countries **(The future is old)**

Force #1: The place premium implies persistent and massive wage differences for similar productivity workers

Wage by education level in USD PPP
(year = 2011)

$38,861.47

$23,934.99 $24,319.84

---- The Netherlands
—— Ethiopia
------ Dominican Republic

Nowhere near the gain from moving abroad

$9,580.80

$5,061.65

$3,586.03
$405.39 $1,102.67 $2,497.21

Investing in human capital in Ethiopia = 6-folds gain

No education   Secondary   Post-secondary

Median wage by education level in USD PPP
(year = 2011)

$21,303.00

$16,246.39

$13,761.00

---- Old OECD countries

—— Country income less than $10,000*

$5,993.93

$2,946.13

$949.63

No education   Secondary   Post-secondary

Source: Own calculation using World Bank data

Force #1: Wage gaps, due to place premium, after adjusting for differences in "intrinsic" productivity

Estimates of the wage gains for low/medium skill workers from the 10 largest sending countries to the USA

Country	(I) Annual predicted wage in the US	(II) Annual predicted wage in home country	(I) - (II) Wage gap	(I) : (II) Ratio (wage in US / wage at home)
India	$23,846	$4,021	$19,825	5.9
Indonesia	$21,194	$3,423	$17,771	6.2
Brazil	$23,818	$7,005	$16,813	3.4
Bangladesh	$19,315	$3,804	$15,510	5.1
Pakistan	$21,662	$3,705	$17,957	5.8
Nigeria	$18,689	$1,186	$17,503	15.8
Mexico	$17,511	$6,849	$10,662	2.6
Vietnam	$19,820	$2,624	$17,196	7.6
Philippines	$18,133	$5,218	$12,915	3.5
Egypt	$20,739	$1,712	$19,028	12.1
40 countries (population weighted average)	$21,855	$4,740	**$17,115**	4.6

Source: Clemens, Montenegro, Pritchett (2019)

The place premium

A large part of your income is determined by *where* you are, **not** *who* you are

It's in the air!

And the place premium exists due to the lack of convergence of spatial productivity

$$Y = \mathbf{A} \cdot F(K,H)$$

- "A" - or total factor productivity - is a public good; hence easily transferable and should converge fast

- If "A" converges fast, return on investment in K (physical capital) and H (human capital) in poorer countries is high (think productivity gains)

- We just need savings (domestic and foreign) to flow into low-income countries and invest in capital

- Marginal product of factors converge, income converges, wages equalize

- Wrong. "A" didn't converge - it explains most of cross-country differences in income

Force #1?

- Massive wage gaps

- "place premium" driving these gaps

- Divergence in spatial productivity drives "place premium'
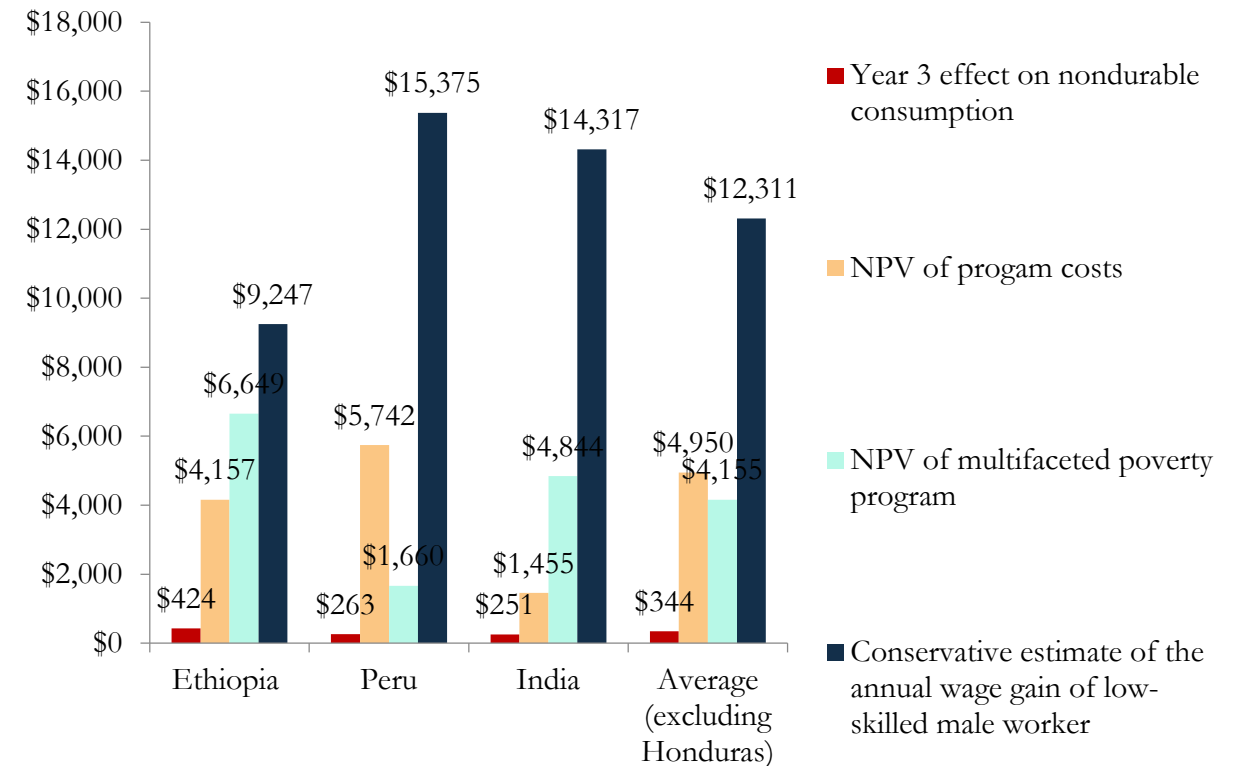
- Spatial productivity ?????

Conclusion 1: The least you can do for the world's poor is better than the best you can do

The gains to workers, from labor mobility, exceed those from poverty reduction programs

Intervention	Country	PV lifetime wage increment	Weeks of US work equivalent
Microcredit	Bangladesh	700	4
Anti-sweatshop activism	Indonesia	2,700	30
Additional year of schooling	Bolivia	2,250	11
Deworming	Kenya	71	0.3

Source: Clemens, Pritchett, and Montenegro 2008

"Gold-standard" program generates $344 in income for ultra-poor after 3 years for $4,545 spent over 2 years

Legend:
- Year 3 effect on nondurable consumption
- NPV of progam costs
- NPV of multifaceted poverty program
- Conservative estimate of the annual wage gain of low-skilled male worker

Data labels (Ethiopia): $424, $4,157, $6,649, $9,247
Data labels (Peru): $263, $5,742, $1,660, $15,375
Data labels (India): $251, $1,455, $4,844, $14,317
Data labels (Average (excluding Honduras)): $344, $4,950, $4,155, $12,311

Source: Adapted from Banerjee, Duflo et al (2015)

Conclusion 2: The gains to the global economy (at the margin)

- An incremental increase in labor mobility would produce billions (trillions) of dollars in gain (think annual gain per additional migrant worker at $ 15,000)

- This is more than the gain from complete liberalization of trade ($104 billion)

- Walmsley and Winters (2002)

Lose over **120 million working age** individuals

Gain **95 million retirees**

Force #2: Over the next 30 years, the working age population in most OECD countries is declining but the number of elderly is growing

	Retirees (65+ of age)	Working age (25-64)
Australia	⬆ + 3,217,000	⬇ - 335,000
Japan	⬆ + 3,828,000	⬇ -19,161,000
United States	⬆ +28,048,000	⬇ -7,906,000
Germany	⬆ +5,533,000	⬇ -11,493,000
United Kingdom	⬆ +5,797,000	⬇ -3,425,000

This is a phenomena the world has never seen at a country scale: More old than young, by substantial margins
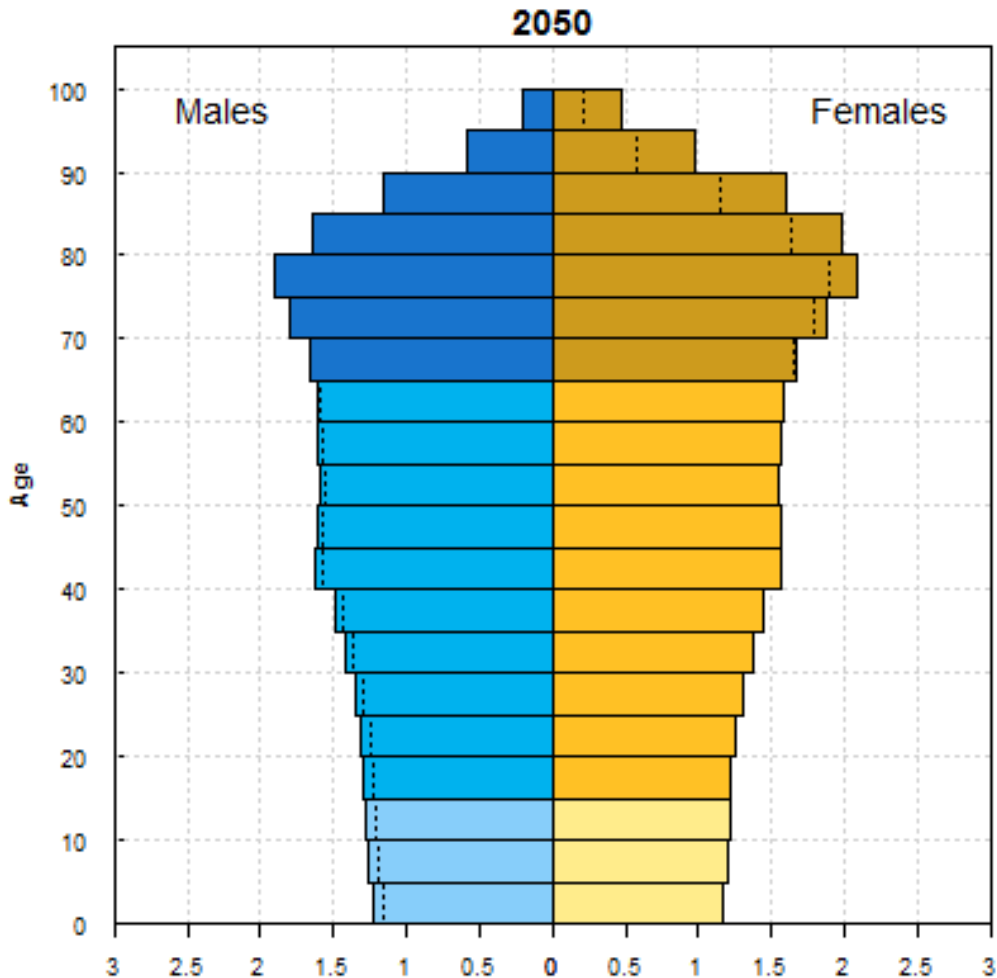

Labor force aged (15 to 64) to 65 plus in Zero Migration UN Scenario falls to 1.33 and 1.37 in Italy and Japan
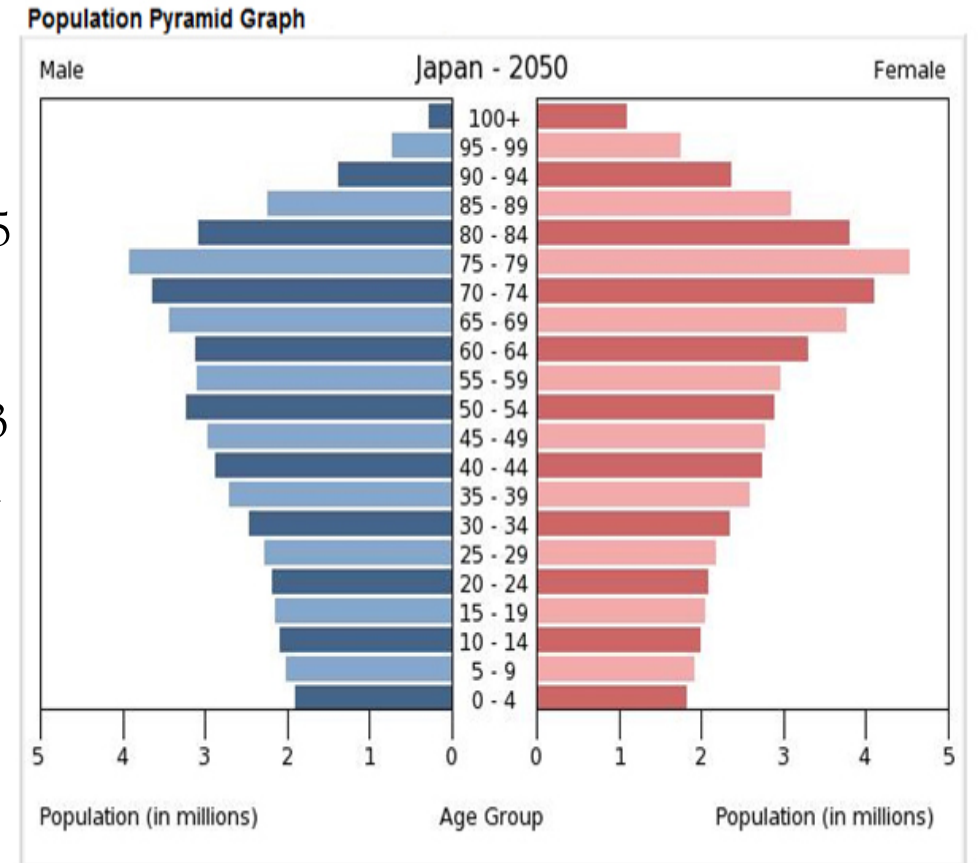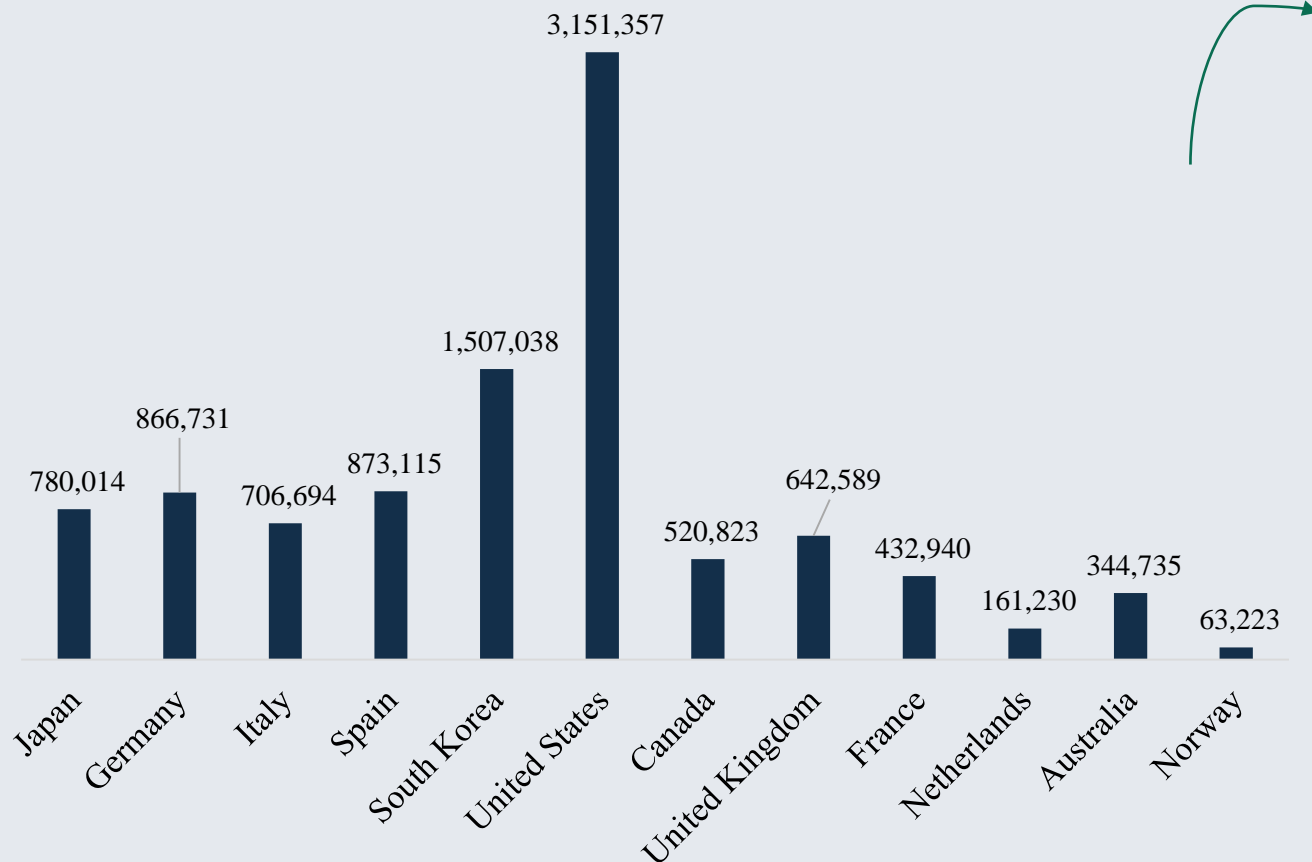
The developed world's old age pension and social security systems depended on a large and growing base of workers to retirees

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

5.3 : 1

3.3 : 1

1.7 : 1

1980

2015

2050 (Zero migration)
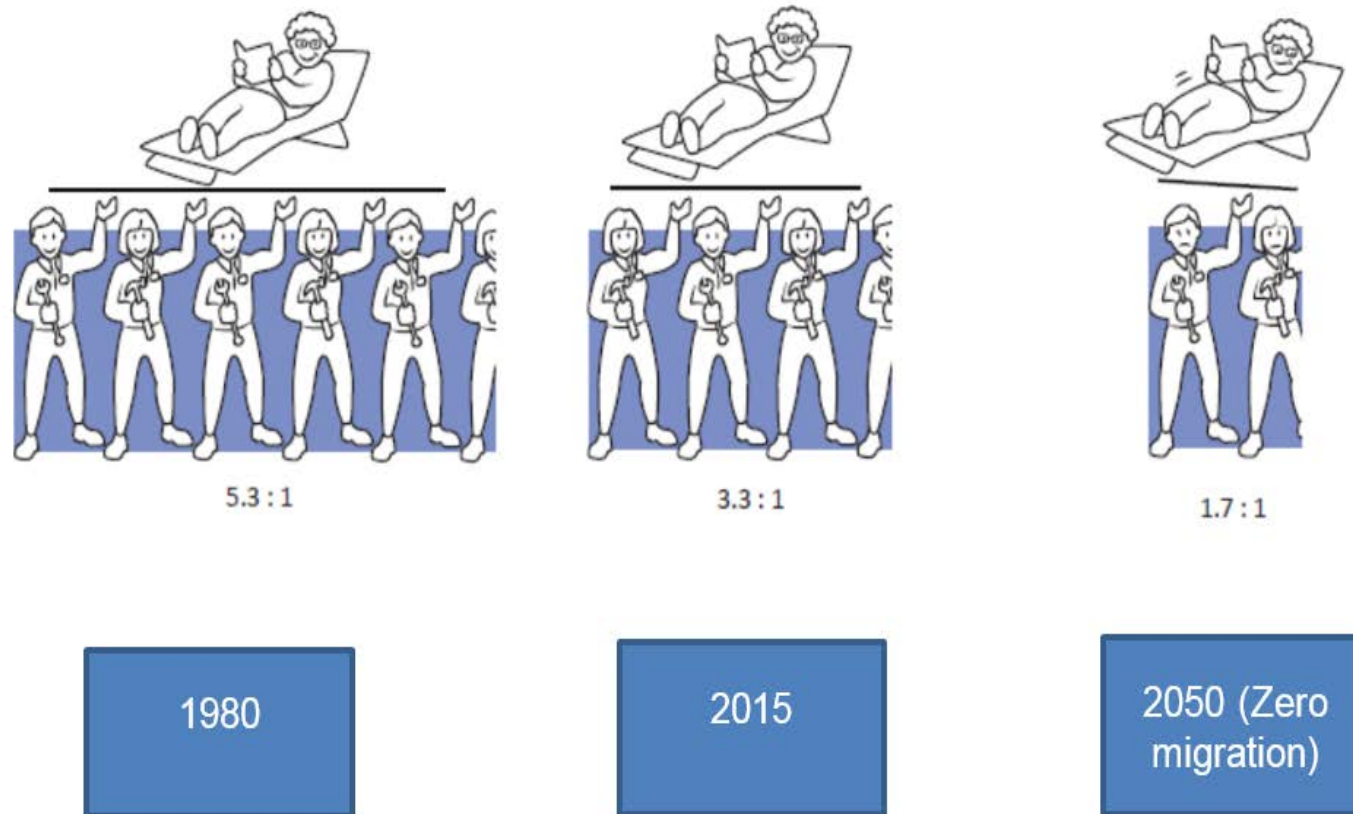
and millions of workers are needed annually to balance the growing ageing population

Migrants needed <u>per year</u> between 2020 and 2050, to keep the same ratio of working population-to- 65+

Japan: 780,014
Germany: 866,731
Italy: 706,694
Spain: 873,115
South Korea: 1,507,038
United States: 3,151,357
Canada: 520,823
United Kingdom: 642,589
France: 432,940
Netherlands: 161,230
Australia: 344,735
Norway: 63,223

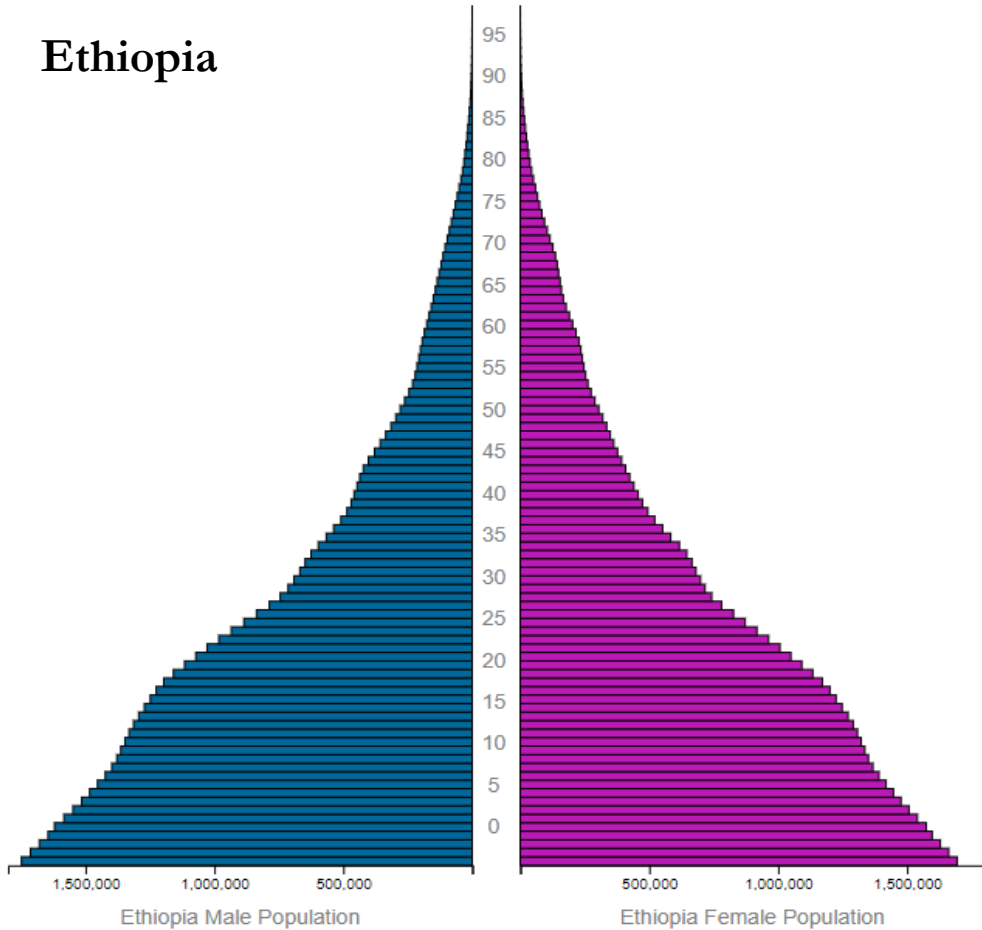**Migrants needed per year (in these OECD countries):**

+10 million migrants

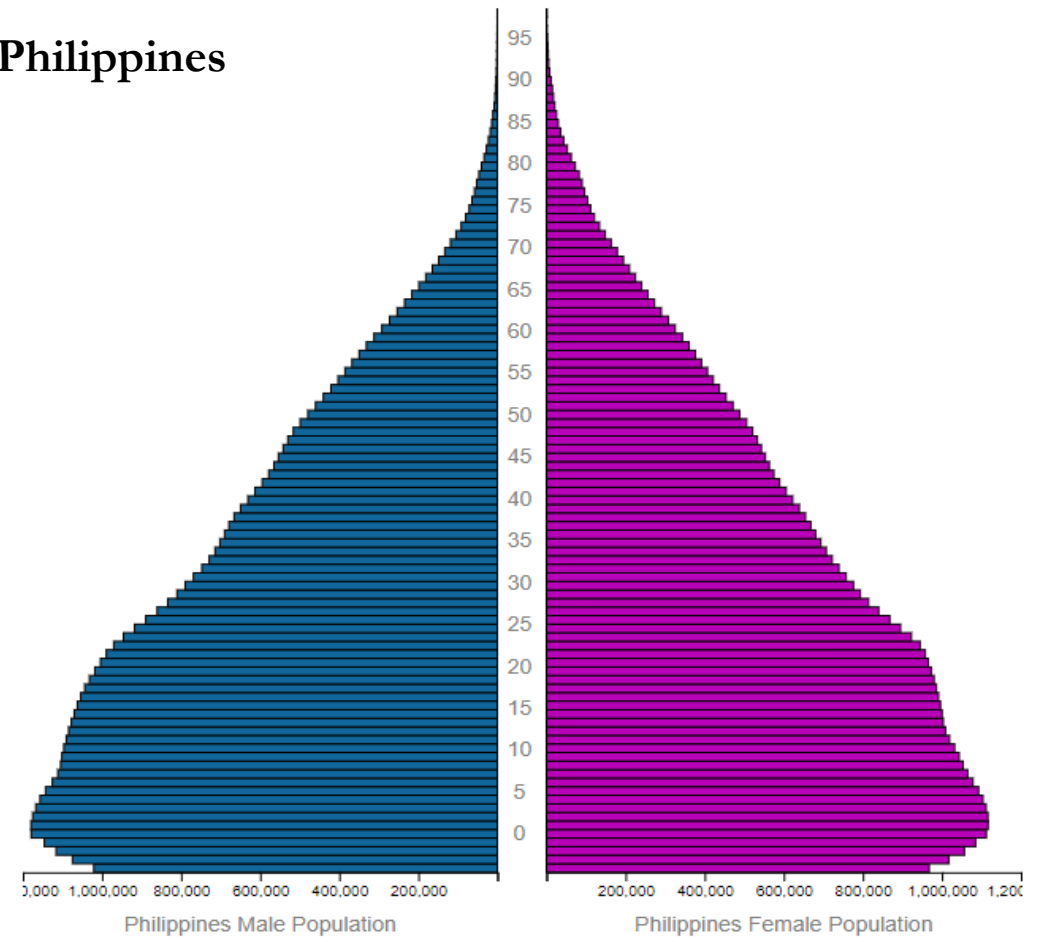**Total migrants needed between 2020 and 2050:**

+300 million migrants needed
(double the current global migrant population)

Force #2: Most developing countries have a booming and young population

Ethiopia

Philippines

and are faced with the challenge of providing employment to billions of new (and low skilled) workers over the next 30 years

1.4 billion new working age individuals by 2050 in the regions considered above **(since 2015)**
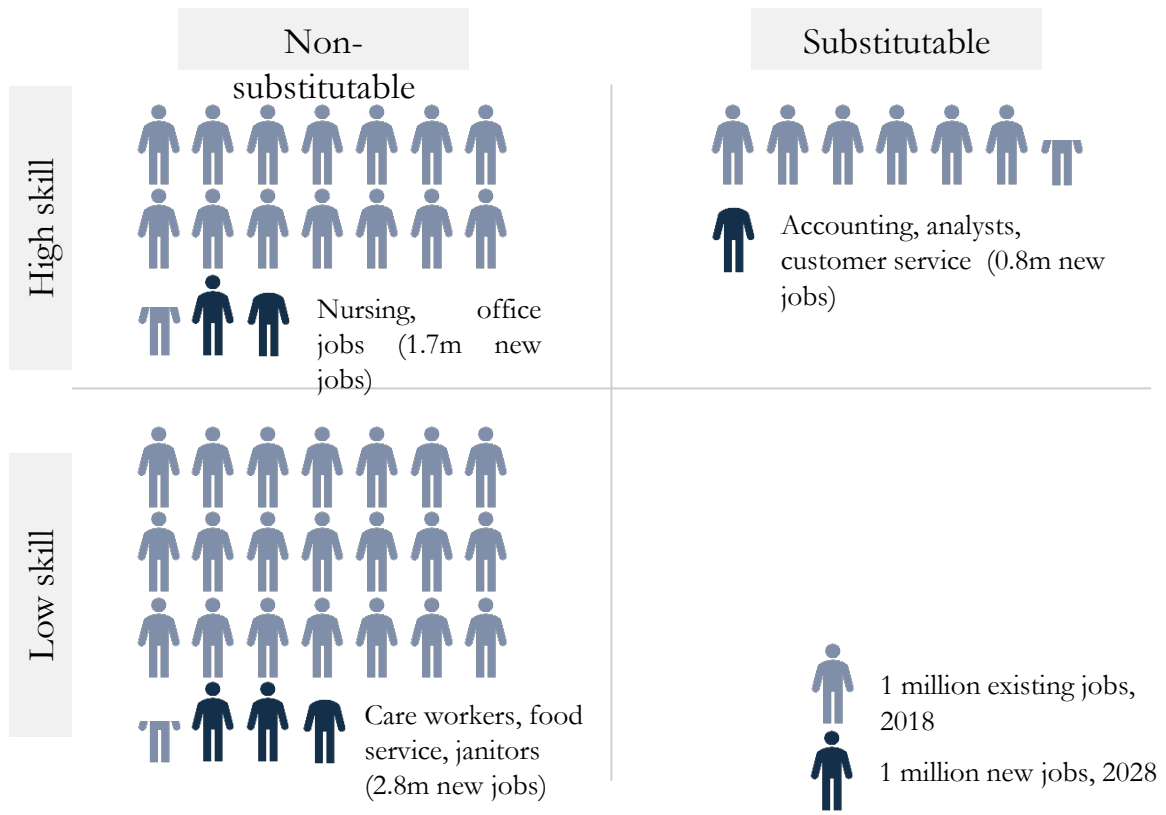
590 million

No idea how to employ

819 million

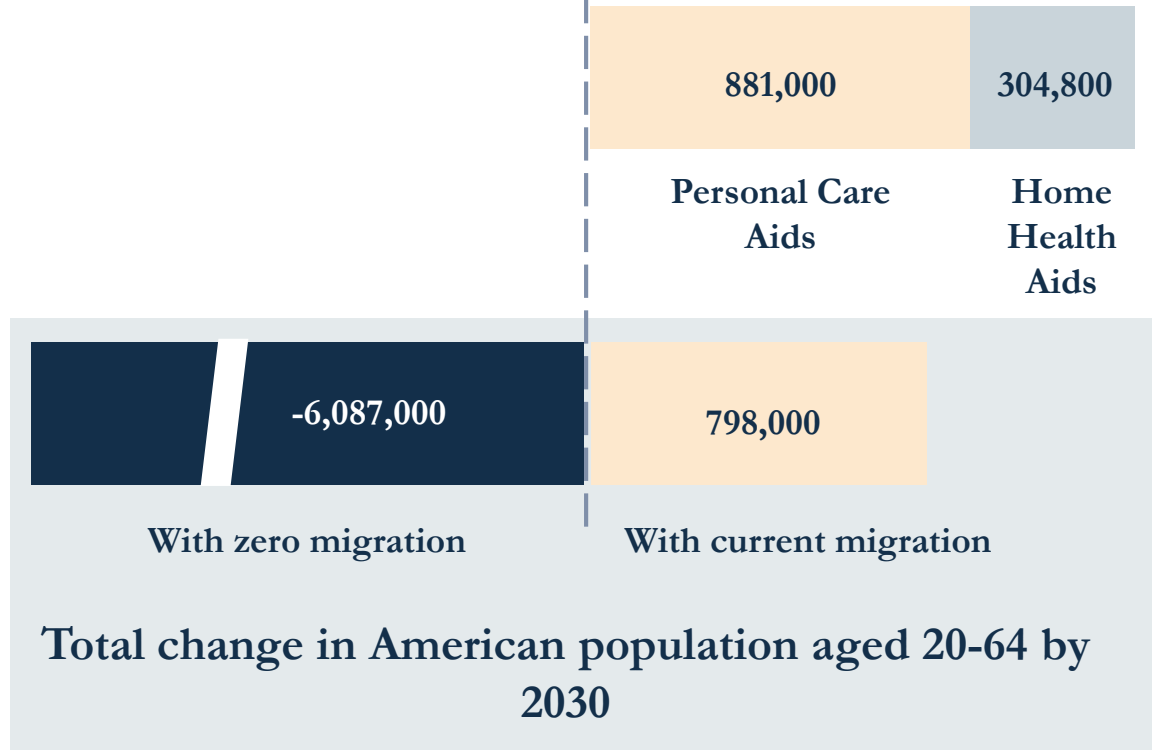*Some idea how to employ - based on 2015 employment rates*

Developed nations are already shifting from a past where the question was how to create jobs to a future where the question is where to find workers

Fastest growing US jobs will be in low skill work that cannot be offshored or mechanized

High skill

Non-substitutable

Nursing, office jobs (1.7m new jobs)

Substitutable

Accounting, analysts, customer service (0.8m new jobs)

Low skill

Care workers, food service, janitors (2.8m new jobs)

1 million existing jobs, 2018

1 million new jobs, 2028

Source: Bureau of Labor Statistics 2018

The need for care workers alone in the US will outstrip growth in the entire working age population

Number of new care jobs by 2028

881,000	304,800
Personal Care Aids	**Home Health Aids**

-6,087,000	798,000
With zero migration	**With current migration**

Total change in American population aged 20-64 by 2030

Source: UN DESA 2015, Bureau of Labor Statistics 2018

Labor mobility *is* the future

- It is happening - we see it here, and also in Japan, Germany, UK…

Preparing for this future means moving to think about the future *of* labor mobility

- The question is "how do we do it faster and better, so that it is less risky, less exploitative and more empowering to those involved?"