

# Is there a Goldilocks solution to international labor mobility?

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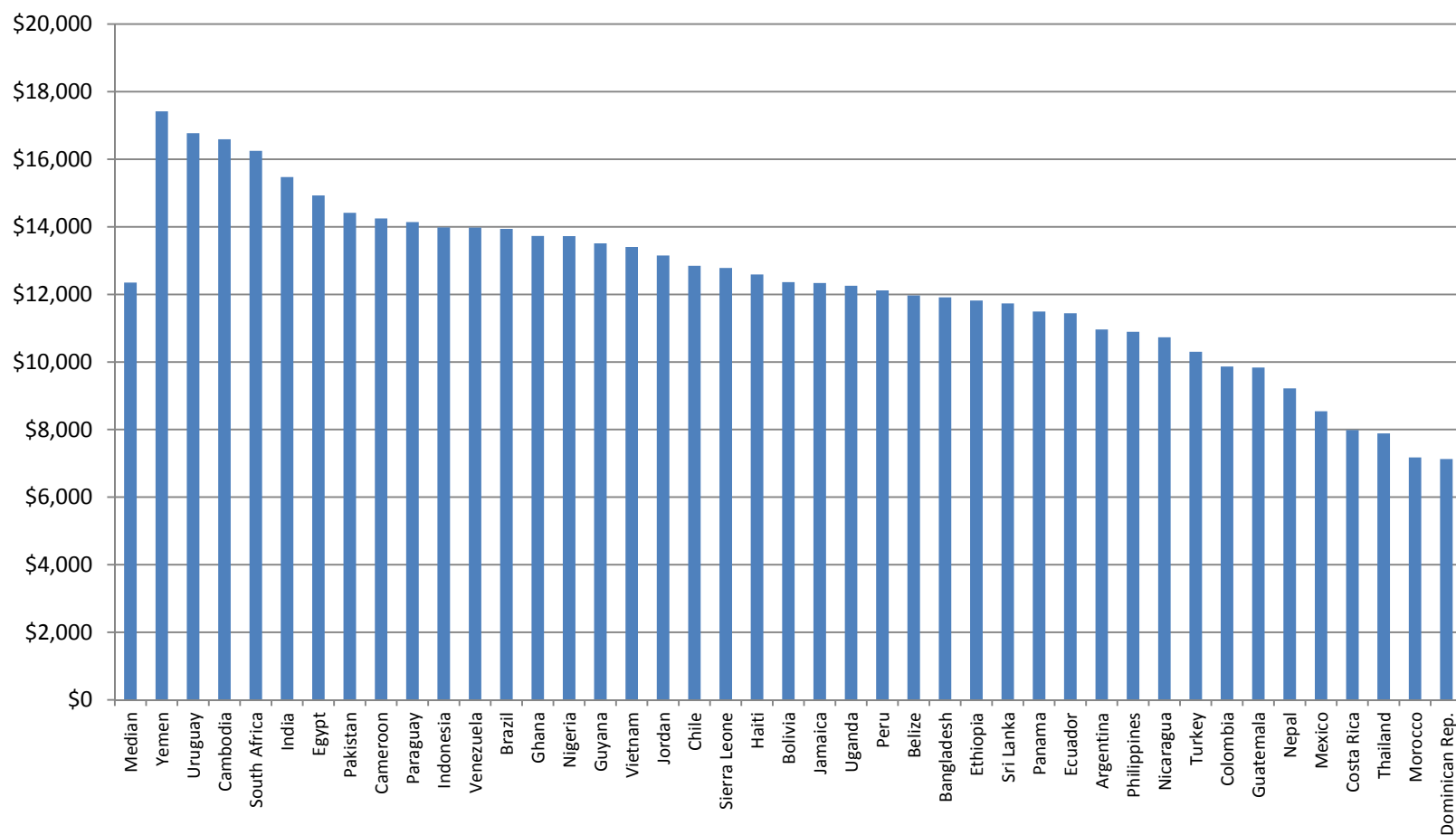
# Three big points

- Huge possible gains from labor mobility
- The obstacle is voter attitudes and politics in recipient countries--can this be overcome?
- In the international system labor mobility has no full-time advocate--

# Huge potential gains from labor mobility

- Border based restrictions on the mobility of labor cause massive differences (factor of 5 or more) in the price (wages) of people with *exactly the same intrinsic productivity*
- The basics of public welfare economics such as the “Harberger Triangle” are that the welfare loss from border based price distortions increase with the square of the distortion and is proportional to the base—so at this stage no other border barrier really matters
- All micro development interventions to raise income/reduce poverty necessarily look trivial by comparison (percentage gains versus *factor multiples*)
- The conventional “growth” economics with its emphasis on institutions suggest these gains *at the margin* come at *positive* benefit to recipient countries because differences in labor productivity are mainly “in the air” and hence a public good—not the result of asset accumulation

The wage gain to a low skill worker (adjusting for observational equivalence and migrant selectivity) is PPP\$12,000 a year (range from 17,000 to 8,000)—average wage in home is PPP\$5,300



Source: Clemens, Montenegro, Pritchett 2008

The simple and compelling—if unpopular—arithmetic is that there is nothing else—macro or micro--that compares

- Average annual wage income of 5,000.
  - Borrow your *annual* wage and make net 10 percent is \$500.
  - Increase by one year the years of schooling and get 10 percent for lifetime— $NPV=500/.05=10,000$  (less than one year)
  - Tonga-NZ agricultural guest worker with 1971 workers produced gains of roughly half of bilateral aid
  - Total gains of complete capital mobility (from current position) is less than 2 percent of OECD labor force more low skilled migrants

# Goldilocks international institutions

## “Too Hard”

- Sovereign pre-commitments to international binding reciprocal rules
- GATT/WTO on trade
- IMF on exchange rates
- Geneva Convention on practices
- Just will not happen politically

## “Too soft”

- Protection of migrants—without any advocacy of there being more or less
- Creates no upward dynamic for greater labor mobility

# Goldilocks

- A free standing international organization with the mandate to promote *more* and *better* labor mobility
- Voluntary accession to participation at all
- All bilateral agreements are “slated” within the forum (with a variety of purposes)
- Promotes the adoption of more of the “good practice” agreements (as well as better, and better enforced practice in the agreements)
- Revenue model?