

# **Low-skilled Labor Migration: guest worker programs and free trade agreements?**

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# Highlights

- Labor migration policies:
  - Welcome the skilled to settle, rotate the low-skilled in and out
  - Hard to implement; most migrant-receiving countries have fewer skilled migrants than desired and more low-skilled
- Low-skilled programs
  - Limited goals (fill vacant jobs) = larger programs, e.g. Poland-Germany
  - Multiple goals (fill jobs, promote development) = smaller programs, e.g. Spain-Senegal
- Trade agreements rarely include low-skilled workers (EU & EEA exception):
  - NAFTA, CARICOM, ASEAN: freedom of movement limited to or begins with skilled professionals
  - African agreements, MERCOSUR: ambitious goals, limited implementation
  - GATS Mode 4: limited progress on Mode 4 service providers

# 3 Major Conclusions

- Programs with fewer goals are larger:
  - Larger Germany-Poland fills seasonal farm jobs vs Spain-Senegal fill jobs, training, and development
- Trade agreements rarely deal with low-skilled workers
  - EU-EEA exception, permit free movement for all types of workers
  - NAFTA, CARICOM: begin with professionals
- Low-skilled migrant workers are controversial
  - Benefits are immediate, concentrated, and measurable in economic terms (jobs, profits etc)
  - Costs are deferred, diffused, and hard to measure (changes in language, religion, culture)

# TFWPs

- Temporary foreign worker programs:
  - Goal: Add workers temporarily to labor force, not settlers to population (rotation principle and migrant worker-employment ratio approaching 100%)
  - All TFWPs fail: there is nothing more permanent than temporary workers; migrant-employment ratio falls
- Why TFWPs get larger and last longer:
  - Distortion: some employers make investments that anticipate continued low-skilled migration (farmers plant orchards in remote areas)
  - Dependence: some migrants, families, countries become dependent on foreign jobs and remittances
  - Persisting demand for migrants + higher wages abroad = larger and longer TFWPs

# Government Capacity to Regulate

- Government regulation of TFWPs has become more difficult:
  - 1960s: one macro or shotgun program; major variable affecting guest worker admissions was the unemployment rate
  - 21<sup>st</sup> century: multiple TFWPs, each with its own constituency and regulations; result– weak or no links between unemployment rate and admissions
  - Not just multiple programs
    - Reduced role of government Employment Service in job-matching,
    - more power to employers over admissions, as attestation where employer PROMISES to obey regulations and enforcement is after admission (US H-1B program) replaces certification, where govt supervises search for local workers (H-2A & B)

# Macro TFWPs

- One program, begun in war time or when demand for additional labor was assumed to be temporary.
- Generally, no extensive debates of alternatives, including pushing up minimum wages to encourage mechanization, freer trade in tradables (ag), or ER appreciation to reduce demand in exports
- Why no debates of alternatives:
  - US: food to win the war; Mexican Braceros as Mexican contribution to Allied war effort
  - Europe: do not risk fragile postwar recovery with potential wage-price inflationary spiral

# Rotation Assumptions

- Workers rotate in and out of receiving country:
  - Seasonal jobs: return to country of origin when work ends
  - Year-round jobs: depart with savings after 2-3 years
- Most guest workers did rotate in and out as expected, but some settled:
  - in the Mexico-US case, networks were established to facilitate unauthorized migration
  - in Europe, most guest worker migration was legal, and most guest workers “earned” permanent residence rights after five years legal residence
  - Result: guest workers now can mean immigrants later

# 1990s: Micro Programs

- Economists: admit more migrant workers and increase global economic output
  - WB GEP 2006: add 50% to the 28 million migrants from Idcs from 2005-2025, and increase global GDP by \$356 billion, more than the gain from completing Doha
  - Other estimates: open borders, no unemployment, and global GDP up as wages rise by a factor of 5-10x
- Other considerations more important:
  - Germany: new programs with Poland and other central European countries: manage inevitable migration, foreign policy considerations
  - Spain, Italy: mobility partnerships that admit some legal workers and trainees in exchange for accepting return of unauthorized foreigners, cooperate to reduce irregular migration



# Admissions and Rights

- What must employers to do hire migrants:
  - Certification or economic needs test: government agency supervises employer efforts to recruit local workers at prevailing wages etc
  - Attestation: employers open border gates by asserting that they are obeying program rules; enforcement responds to complaints of violations
- What are the rights of migrant workers:
  - Contractual worker: tied to one employer by a contract that lays out rights and obligations
  - Free-agent worker: immigrants can change employers freely, as can F-1 foreign students and most NAFTA professionals
  - N.B: free-agent migrants may NOT solve employer labor shortage complaints

# Moving Forward

- Governments: administrative rules to deal with employer and migrant economic decisions
  - Employers and migrants must abide by rules or face sanctions for violations
  - But, employer and migrant incentives may contradict rules:
    - Employers: want to hire “better” foreign workers and keep them because they are “good” workers
    - Workers: want to continue earning high wages and benefits
- How to align rules and incentives:
  - Employers: pay a tax or levy on migrant worker wages that rises with renewals; use funds to reduce dependence on migrants over time (but some out of bus)
  - Migrants: defer some wages or refund taxes to encourage returns (but equal pay?)

# GATS

- Services: Employ about 40% of world's workers, 80% in industrial countries
  - Often produced and consumed simultaneously (meals)
  - Can change the consumer (medical services)
- 4 major modes to provide services over borders:
  - cross-border supply (call center in India for Americans)
  - consumption abroad (Americans travel to Thailand for medical care)
  - foreign direct investment (FDI) or commercial presence
  - Mode 4 migration of “natural persons”
- Trade in services: \$3.3 billion in 2009, \$100 to \$200 billion = Mode 4, less than 5%
- DC led by India in Doha: liberalize Mode 4 movements of service providers

# Mode 4 Changes Desired

- Eliminate certification or economic needs tests: allow employers to hire migrant service providers without first seeking local workers
- Expedite issuance of visas and work permits via one-stop shops, and have appeals procedures for persons denied visas and permits
- Facilitate credentials recognition so that migrant service providers can more easily satisfy license and other requirements to work in professions
- Allow Mode 4 migrants to be exempted from work-related pension and other benefit programs and the work-related taxes levied to support them

# Numbers vs Rights

- Some worker rights have costs, such as work-related benefits
- Higher labor costs usually mean less employment, so there is a trade off between 2 goods for Mode 4 migrants: maximum numbers versus full rights
- Who decides optimal trade off:
  - Receiving government that requires payment of benefit-related taxes even if migrants not eligible for benefits?
  - Sending government that covers migrant service providers under home-country programs?
  - Migrants who can elect to participate in work-related benefit programs or not?

# Moving Mode 4 Forward

- Show economic gains from more movement of service providers from Idcs to dcs
  - WB (GEP 2006): increase number of Idc migrants in industrial countries by 50% between 2005 and 2025, from 28 million to 42 million, and global GDP up by \$356 billion or 0.6%, more than completing Doha
  - Assumptions: full employment, no displacement
- Most Mode 4 commitments are for professionals (ICTs) and business visitors, not low skilled
- Goal: WTO service provider visa
- Alternative to Mode 4 liberalization: Mode 3 such as Indian IT firms that move workers as intra-company transfers

# FTAs and Migration 1

- Asia-Pacific Economic Cooperation: 21 members
  - Reach agreement by consensus on investment liberalization, business facilitation, and economic and technical cooperation
  - APEC Business Travel Card (ABTC): apply to home government for approval, get expedited entry. As of 2008, 34,000 active ABTCs, 40% held by Australians
- Association of Southeast Asian Nations: 10 countries, almost 600 million people
  - ASEAN Vision 2020 (1997): “free flow of goods, services and investment and capital.” 1998 revision: “freer flow of skilled labor and professionals in the region.”
  - ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers (2007): implementation?

# FTAs and Migration 2

- Caribbean Community: 15 members, 40% in Jamaica
  - Facilitate intra-CARICOM travel with common travel documents (common passport since 2005)
  - Free movement of skills: graduates of approved universities, media workers, musicians, artists and sports persons certified by national professional bodies
  - Present certificates upon entry to another CARICOM member and get 6-month permits while cert reviewed
  - Goals: expedite certification recognition, transfer social security credits
  - Issues: Barbados and Guyana: how to deal with irregular migration in a freedom of movement area?



# FTAs and Migration 3

- North American Free Trade Agreement: 3 members
  - Chapter 16: Temporary Entry for Business Purposes, 4 categories, including TN visas for “specified professionals”
  - About 100,000 admissions to the US each year, 80% Canadians moving to the US
- European Union: freedom of movement of goods, capital, workers and services
  - Restrictions: public sector jobs can be restricted to nationals; nationals of new EU entrants may have to wait up to 7 years for freedom of movement
  - Freedom to provide services is becoming a way to move or “post” low-skilled workers within the EU outside freedom to move as an individual worker (national minimum wage laws?)

# FTAs and Migration: Lessons

- FTAs between countries at similar levels of economic development are most likely to include expansive free mobility provisions (EU vs ASEAN)
- FTAs that include countries at different levels of economic development generally limit freedom of movement to professionals (NAFTA) or begin freedom of movement with professionals (CARICOM)
- Even without freedom of movement for individual workers to move, temp firms can move low-skilled workers within FTAs that allow freedom to provide services (EU)
- Some FTAs have ambitious freedom of movement clauses that have not been implemented

# Conclusions

- Managing migration: a process to manage, not a problem to solve
- Managing low-skilled labor migration:
  - How much power for employers vs government agencies in admissions?
  - Should workers be tied to particular employers or allowed to be free-agents in the labor market? Should there be a path to immigrant status?
  - GATS: what trade offs between migrant numbers and rights for migrant service providers
- FTAs and low-skilled migration:
  - More freedom of movement for low-skilled if countries at similar levels of economic development (allow migration if there will not be much)
  - Begin with highly skilled if fears of “too much” migration