THE WORLD BANK

POVERTY REDUCTION AND ECONOMIC MANAGEMENT NETWORK (PREM)

Economic Premise

JANUARY 2011 • Number 45

Labor Mobility for the Poor: Is it Really Possible?

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Despite mounting evidence that supports the pro-poor benefits of migration, it has not been easy to unlock doors into developed country labor markets. This is largely because both labor sending and receiving countries are unsure that such programs can be designed or executed in a manner that considers their respective (and often competing) interests. This note offers guidance on how to design and implement a migration scheme that is win-win for both host and source countries.

In the past, migration policy was found exclusively in the domestic immigration policy of developed countries, but it has now become central to the debate on international development and poverty alleviation. Indeed, some have argued that nothing quite separates an individual from the benefits of development as much as a work visa (Clemens, Montenegro and Pritchett 2008). Yet, economic theory predicts that, under certain conditions, the free movement of goods is a substitute for the free movement of the factors embodied in the production of those goods. Hence, trade in goods that are highly labor intensive should do the same for wages as the physical movement of people, accomplishing a result close to factor price equalization in the end. But this theory has not been borne out in reality, in part because the conditions listed in textbooks—such as perfect competition, identical production technology, constant returns to scale, and perfect mobility of factors within countries—are not present in the real world. However, productivity-adjusted wages do seem to be converging and evidence shows that these differences in productivity are highly location specific (Pritchett 2006). This means that a ready stock of migrants would be able to raise their incomes by moving to, or working in, high-paying locations.

In fact, there is strong evidence now showing that labor market restrictions are imposing a much greater burden on the global economy than the remaining trade restrictions. It has been estimated that a 3 percent increase in the developed country workforce due to migration could deliver benefits in the range of $305 billion a year to the current citizens of poor countries—almost twice the combined annual benefits of full trade liberalization ($86 billion), foreign aid ($70 billion), and debt relief ($3 billion in annual debt service savings) combined (Pritchett 2006).[1]

Despite the caveats associated with general equilibrium estimates, the message that differences in productivity and wages across the world are so large that moving workers across boundaries offers huge rewards is widespread. And that skilled and mobile workers are able to reap these rewards with increasing ease is also no secret. Migration programs in most developed countries are highly skewed toward the skilled and are becoming even more so as the hunt for global talent intensifies everywhere.[2] On the other hand, the unskilled tend not to have any ready points of entry into labor-scarce economies, even though labor shortages exist across the board in many developed countries. Increasing the access to international labor markets for the poor then has very strong poverty reduction outcomes and is therefore becoming an important focus of development policy.

Because the poor lack the financial resources or social networks to migrate, programs that explicitly target people with low income would yield the greatest benefits. However, destination countries remain reluctant to open their labor markets to the poor from developing countries because of the perceived, and real, fiscal and/or sociopolitical costs. Therefore, it is virtually impossible to contemplate any realistic permanent migration options for the poor, but the prospect of a temporary movement of persons (TMP), where the poor have limited and circumscribed access to developed world labor markets, is becoming more appealing. It has appeal on both sides—receiving countries are able to have services performed in sectors where it is becoming increasingly difficult to attract native workers and sending countries are able to use the safety valve of overseas employment for workers for whom their own domestic environments are unable to provide enough economic opportunities—resulting in greater socioeconomic stability, remittances, and even skill enhancements.

While almost all Organisation for Economic Co-operation and Development (OECD) countries have temporary worker migration programs—with seasonal workers as the largest single category, totaling 576,000 workers in 2006 (OECD 2008)—these programs remain controversial. This is particularly true of programs geared to low-skilled migrants, such as seasonal migration programs, as witnessed by the policy debate in the United States over a new guest worker program and continued debate in Western Europe about the role of seasonal workers. Some critics of such programs raise concerns that workers will overstay and/or compete down the wages of native poorer workers (Borjas 2007), while others raise concerns about the possible exploitation of workers and whether workers can earn enough to make it worthwhile if the duration of work is short. To be sure, there have been problems with previous temporary schemes. As attractive and mutually beneficial as such a TMP sounds in theory, in practice, the adage, "There is nothing more permanent than a temporary worker," seems to personify the general suspicion with which TMP is viewed.

If any progress is going to be made on expanding labor market access for the poor, then this popular perception will need to be better understood and hopefully reversed. To this end, this note offers some thoughts on how TMP can be made to work internationally. These thoughts are based on a careful study of some past (German-Turkish), existing (UK-EU, Caribbean-Canada), and a more recently instituted program between the Pacific Islands and New Zealand.[3]

The Pacific Islands and New Zealand program, known as the Recognised Seasonal Employer (RSE) scheme has been described by the International Labour Organization's good practices database as a model for other destination countries. The New Zealand Department of Labour (2010) recently concluded that "Overall, the RSE policy has achieved what it set out to do." The policy provides employers in the horticulture and viticulture industries with access to a reliable and stable workforce, with productivity gains starting to emerge as workers return for another season. The main concerns raised about temporary labor programs have been mitigated: the evaluation finds little displacement of New Zealand workers; almost all workers returned, with overstay rates of about 1 percent in the first season and less than 1 percent in the second; and concerns about worker exploitation have arisen in only a couple of isolated cases. A World Bank evaluation (McKenzie and Gibson 2010) also revealed that the RSE has also lived up to the policy goal of improving development in the Pacific Islands.

Based on this positive record, this note provides general lessons for policy makers who wish to institute similar TMP programs for the poor. These lessons could have wide portability due to the fact that the Pacific–New Zealand program is sizeable by international standards—already reaching one-third the size of Canada's Seasonal Agricultural Worker Program, which is in its 44th year of operation and considered global best practice thus far. Three broad areas emerge as a priority for policy and operational focus: design, management, and capacity building.

Design

Solid design is critical for the scheme to operate successfully. Not all TMPs are the same, and, in fact, design has quite a lot to do with the different observed outcomes. The key is to ensure that the scheme is designed in an incentive compatible manner: that is, incentives (or disincentives) are compatible with the outcomes desired. The four aspects of basic design—the four Cs—are important.

Cost: The high fixed cost of movement for the poor usually tends to be a factor in how long migrants need to stay overseas to recover their substantial investments. The higher the cost borne by the migrant, the longer they will need to stay abroad, and the longer they stay abroad, the less likely they are to return. Cost-sharing with employers works to alleviate this burden and enables migrants to quickly accumulate savings that they can consume at home. Imposing some cost on employers in developed countries also solves the problem of foreign workers being used (or being perceived to be used) to undercut local wages, which makes such schemes domestically difficult in developed countries. The duration of the access to the labor market also has implications for cost recovery and needs to be fine-tuned carefully. Too long a duration increases the probability of temporary migrants settling in (as seen in the German-Turkish scheme); too short a duration may imply low participation in the scheme altogether (as seen in the Australian-Pacific scheme) or a higher propensity to overstay beyond the duration of the employment contract.

Choice of workers: The qualifications of workers matter greatly. If overqualified workers are selected to do unskilled jobs, the tendency of such workers is to use the TMP program as a stepping stone into the developed market rather than the restricted employment opportunity that it is meant to be. It is not uncommon at all in sending countries to see interest from educated and skilled workers in applying for semi- or unskilled work abroad. This could undermine the scheme, and to prevent this, greater attention needs to be paid to the recruitment practices in sending countries.

Circularity: Access to an international labor market needs to be repeated rather than treated as a one-time event (that is, workers should be able to go again year after year). Often, well-intentioned developed country policy makers try to limit the number of times a single worker can have access to overseas employment with equity considerations in mind (that is, to spread the economic benefits to a wider population in the sending country). This again tends to undermine the scheme and results in overstaying. In game theory terms, making it a repeated sum game rather than a one-shot game changes behavior and aligns it as the intended consequences improve.

Commercial viability: Destination countries can be reluctant to enter into arrangements with developing countries to import unskilled labor, even in times of labor shortages, because of the fear that when labor market conditions change for the worse and local unemployment rises, they would continue to be bound to a specific intake of foreign workers. This is considered too politically risky in times of downturns and makes destination governments wary of supporting private sector's demands for foreign labor. On the flip side, sending countries don't help this cause when they try to insist on quotas being written into bilateral agreements or memoranda of understanding with a view to providing certainty of access. Instead, the emphasis needs to be on maintaining the commercial viability of TMP schemes by putting the private sector's needs front and center and allowing the scheme to adjust to domestic labor market conditions.

Management

After designing the TMP in an incentive-compatible manner, equal if not more attention should be paid to implementation. It is too often the case that good design is not followed by active management of the risks that are inherent to the system. This in turn causes the scheme to be either suboptimal in delivering development outcomes, or worse, results in the erosion of the goodwill and political capital that are necessary to get a TMP to work. This issue leads to a discussion of fundamental reasons for focusing on the incentives of various stakeholders and pinpointing the scenarios under which a systemic breakdown of the TMP scheme is most likely, which both highlight the need for sound planning and sufficient resourcing from the beginning.

The single biggest reason for needing active management of all stakeholders is the time inconsistency problem, where migrants enter the host country in the first stage and host country firms can choose to train these immigrants (Amin and Mattoo 2005). The cost of identifying/recruiting/training is mostly incurred in this first stage and is hence treated as a sunk cost with the benefit accruing in the next stage. However, while firms may initially participate in such programs, accepting the temporary nature of the arrangements in time period $t + 1$, such an arrangement is not in their interest in time period $t + 2$. This results in too much permanent migration and too little temporary migration—as has happened with numerous TMP programs. Particularly for unskilled workers, the social costs are generally perceived to be greater than the private training costs incurred by firms, so the wedge between private and socially desirable policy can be sizeable—which explains the current impasse on TMP, because some destination countries sometimes prefer a "no-migration" scenario altogether.

Table 1 is an attempt to map out the possible scenarios that emerge with varying levels of private fixed costs and social costs. When the fixed costs of selecting, recruiting, transporting, and training workers is high, employers in the host country will lean toward trying to keep these workers permanently. Conversely, if these costs are low, employers will have a higher tolerance for using them for a finite period and letting them go at the end of one season or cycle in the expectation of incurring some of these (small) costs in the next cycle again. Different migrants are also associated with different real or perceived social costs to host countries. Governments are sensitive to this cost and when this cost is seen to be high (usually for unskilled), host governments are keen to ensure temporariness, whereas if the cost is seen to be low (skilled), they may have a higher tolerance for temporary entry points to turn into permanent pathways.

The least problematic is the case when the fixed and social costs are low, where a spectrum of outcomes is tolerable to all three parties: source governments, host governments, and to host country firms (cell D below). In the second scenario, where fixed costs are low but social costs are high (cell B), host governments definitely want temporariness, whereas the source governments may adopt a casual attitude that fosters a permanent outflow. This creates a conflict of interest between the two governments; however, because fixed costs are low, firms in the host country can be co-opted by their governments to keep the workers only temporarily.

The situation gets increasingly complex in the latter two scenarios. When social costs are low, the host government may be willing to accept permanence, while the source governments might still perceive home country benefits in having these workers return and therefore favor temporariness. In a high fixed-cost and low social-cost scenario (cell C), firms also lean toward permanence, and tacit collusion between host governments and employers may go counter to the source

Table 1. Migration Scenarios

	Fixed cost is high	Fixed cost is low	Policy emphasis required to make a TMP work
Social cost is high	[A] Firmsa want P. SG probably wants P. HG wants T. Problem area—domestically and internationally—firms and HG want different outcomes.	[B] Firms can do T. SG probably wants P. HG wants T. Problem area, but domestic cooperation possible because firms and HG interests are aligned.	Burden is on SG to actively screen, regulate, and repatriate. Need mechanisms to ensure SG cooperation.
Social cost is low	[C] Firms want P. SG wants T. HG wants P. If HG and F collude, commitment problem.	[D] Either outcome probably acceptable.	Burden on HG. Need mechanisms to ensure HG commitment and cooperation.
Policy emphasis required to make TMP work	Burden on firms—robust eligibility criteria for employers needed, with credible enforcement and ex post penalties.		

Source: Compiled by author.
Note: Fixed cost = selection, recruitment, training, and travel; SG = source country government; HG = host country government; P = permanent migration; T = temporary migration.
a. Firms denote employers in the host country.

country's desires. The most difficult scenario perhaps is one where the fixed and social costs are high (imagine poor workers from distant lands with high travel and training costs), implying that employers will not want to incur high fixed costs again and again and lean toward keeping workers permanently, the source country may also be quite willing to let these workers leave permanently, but the host government strongly favors temporariness (cell A). In this situation, not only are host and source government intentions misaligned, but also the intentions of host governments and their own employers are at odds.

Overall, in high fixed-cost scenarios, the implementation focus should be on scrutinizing employers' behavior and actions during implementation. In scenarios with high social costs, the focus needs to be on getting source governments to perform certain due diligence functions properly—and hopefully offering capacity-building assistance (discussed next). When the social cost is low, the host country governments need to show commitment to returning workers if the source country desires their return. This has implications that are not yet fully understood on recruitment management practices (public versus private), the management of the vetting process for firms that enter into the program, and on how penalties are determined and enforced.

Capacity Building

The preceding discussion on the areas critical to ensure a successful TMP program highlights the ineffectiveness of hands-off approaches in migration management. Both receiving and sending countries have been guilty of adopting hands-off approaches on the assumption that "stroke-of-the-pen" reform will automatically lead to institutional reforms that support TMP schemes. Unfortunately, this assumption is usually incorrect on account of the widespread market failures that exist in labor markets, particularly in international labor markets. Information market failures (about the existence or quality of labor supply or employment opportunities) and coordination market failures (between hiring contractors, government agencies, private employers, unions, and nongovernmental organizations [NGOs], domestically as well as across borders) can bring even a well-designed system to a halt. This is why market access granted by stroke-of-the-pen reform does not easily translate into the benefits envisaged during reform planning.

Exacerbating these market failures is the reality of international labor markets: the capacity endowments of receiving and sending countries are very dissimilar. Therefore, while labor-sending countries must invest in alleviating information and coordination asymmetries, receiving countries are usually better positioned to play a stronger role, especially if the success of the scheme is perceived to have some additional noneconomic advantage. Addressing such capacity constraints between sending and receiving countries—some separately and some jointly—is a major step in building trust in the mechanisms that shape the TMP.

Development institutions can play a role here. Just as it is common place now for advocacy for freer trade to be accompanied by aid for trade and "behind-the-border" interventions, such as technical assistance and funding assistance, to ensure that the benefits of freer trade are more widespread, it is now time to do the same for labor movements. Filling knowledge gaps on costs and benefits is a necessary first step and will naturally have to continue for some time, but, in addition, a concerted effort must be made to put in place capacity-building measures for source country governments to prepare, manage, and coordinate across a variety of domestic and international actors (box 1). Without such advice and support, source countries are likely to find themselves ill-equipped to address the numerous and various types of market failures in international labor markets. This would mean international mobility for the poor would remain too low and an important opportunity for poverty reduction would be missed.

Box1. Capacity-Building Measures for Labor Export Countries

Most sending countries require advice and funding to establish a sound framework of policies and practices to facilitate the export of labor. To be effective, this assistance should begin with a thorough assessment of the goals, capacities, and governing responsibilities of the relevant public or private actors in the source country, whose active participation is necessary for a successful program. A sample of activities that often need support are:

Some tangibles—the must haves

Legal framework: Review of existing employment acts to ensure they include provisions for hiring under a TMP program is a necessary first step. The depth of the review depends on how the hiring is expected to be performed: directly by foreign employers, their agents based locally, or through existing government programs.

Costs: Some countries have found the need to set up revolving funds to provide workers with financial support to cover the upfront costs of participating in a TMP program, and governments need advice on how best to operate these funds. Assistance with reforming the remittance infrastructure is also often warranted so that workers can send money home without paying unduly high fees and gain access to financial services.

Some intangibles that have been indispensable

Education and training: Structuring and delivering TMP program participation information in requires multistage training programs—pre-application, postselection, and predeparture. The content of each stage of training varies and needs to be customized to suit the receiving country as well as the source country. A domestic awareness campaign is often a good idea to manage expectations and prevent abuse by illegitimate actors (for example, black market traffickers).

Organizational structure: Various government departments and ministries may have to work together to facilitate a TMP program. Clarity on the processes of coordination and oversight at each stage is critical to avoid bureaucratic delays. Some trial and error is inevitable, but external help can catalyze the streamlining of the various private and public roles. Identifying the staffing and training needs of each department to fulfill its mandate is often overlooked and ends up compromising the credibility of the program. It is also helpful to have good databases that contain detailed information on the workers leaving, ranging from basic demographic data to detailed contractual information regarding the overseas employment. Some minimum data and reporting standards have emerged and source countries may require assistance in instituting systems to reach these standards. These systems also generally need to be coordinated and integrated across various government agencies.

Marketing tools: Source countries often benefit from a "branding" strategy to help enter new markets or new sectors. Assistance in devising a realistic strategy for labor export and following it up with good communication and dissemination tools such as Web sites, advertising, and focused marketing missions can deliver results if well targeted and designed. Importantly, such branding is most effective if it also signals the presence of quality-enhancing measures in the source country, such as comprehensive predeparture training.

Source: Compiled by author.

A second role for development institutions is the proper mainstreaming of monitoring and evaluation (M&E) of the development impact of such labor movements. Credible information on the development impact could reduce the cynicism that prevails among stakeholders and help broker dialogue between sending and receiving countries. However, the RSE scheme remains the only TMP program that has conducted baseline surveys of participants, tracked workers year after year, and has provided credible counterfactuals of what would have happened to households in the absence of migration. Such evidence has played an important role in maintaining widespread domestic and international support for the program and also helped get a similar scheme off the ground in neighboring Australia. Given the large public good provided by M&E, and its high cost, development institutions may wish to support such efforts more widely.

In conclusion, it is indeed possible to design TMP schemes that are win-win for sending and receiving countries. The key is to begin by designing an incentive-compatible program that avoids previous mistakes. When followed by a hands-on implementation approach, along with capacity-building and monitoring assistance, a well-designed scheme can offer a real chance for the poor to participate in the benefits of greater globalization of international labor markets.

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Endnotes

1. Calculated at 2001 prices.
2. There is very little that can or should be done to curb this. Indeed, some experiences show that the motivation to migrate increases the incentive to invest in skills, and, to the extent that only a subset will eventually be able to migrate, it can lead to an increase in the stock of skills at home.
3. The author has had first-hand experience with this program, from inception to implementation to monitoring.

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