

## The Labor Migration Potential in OECD Countries

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### Highlights

The 3.2 billion strong global labor force is increasing by 45 million a year, and 85 percent of the world's workers and almost all labor force growth are in developing countries. The migration policy question is whether rich countries whose labor forces expanded rapidly in the 1970s and 1980s with women and baby boomers should continue to expand their work forces via migration. If yes, how should OECD countries answer the three major labor migration questions: how many, from where, and in what status?

OECD countries are debating these questions amidst rising temporary and irregular flows. Polls find that a majority of residents want immigration reduced; they also want their governments to do more to combat irregular migration. Meanwhile, industries ranging from agriculture and construction to health care and IT services argue they need more migrant workers to survive in a globalizing economy. The result--policy zigzags, first allowing or tolerating migrant workers and then combining some kind of regularization with new enforcement measures.

Sending workers abroad is becoming more important in developing countries, which received over \$250 billion in remittances in 2005. Remittances generally increase spending on the education and health care of migrant children and improve housing; less clear is their long-term impact on poverty reduction and economic development. The Global Forum ([www.gfmd-fmmd.org](http://www.gfmd-fmmd.org)) is seeking best practices to ensure that migration protects workers and contributes to development in both more and less developed countries.

### Global Labor

The world's population in 2007 was about 6.6 billion, including 4.8 billion of working force age, 15+ (<http://laborsta.ilo.org>). The world's work force was 3.1 billion, including 2.9 billion employed and 200 million unemployed, an unemployment rate of 6.2 percent. Almost 20 percent of the world's workers, 600 million, are in the industrial countries. There are 2.5 billion workers in developing countries, 80 percent, where almost all of the growth in the world's labor force is expected.

Recent periods of rapid labor force growth in OECD countries were economically troublesome. Women and baby boom teens joined the labor force in the 1970s and 1980s, periods of high unemployment and inflation (stagflation) associated with economic restructuring due to higher energy prices and globalization. Japan encouraged investment abroad, European countries stopped migrant recruitment, and the US combined legalization of irregular and new enforcement tools in this era.

The 1990s saw a resumption of rapid economic growth. With unemployment rates stable or falling, employers persuaded governments to open border gates to IT workers and nurses and to tolerate or admit migrant farm, construction and service migrants. The September 11, 2001 attacks and recession did not slow migrant entries at the top and bottom of the labor market, but did increase spending on migration (but not labor) law enforcement.

There have been enormous changes in global labor markets. Freeman (2005) says the demise of the USSR and the integration of China and India into the global economy in the 1990s effectively doubled the world's labor force, as workers previously sheltered behind walls migrated or produced tradable goods and services. The World Bank (2005) urged OECD countries to admit more migrants so that remittances could speed poverty reduction and development in developing countries. The goal of the WTO's Doha round is both freer trade and more migration of service providers; the ILO (2006) emphasized that migrant workers must be protected in order to ensure win-win migration outcomes.

### **OECD Debates**

OECD countries today are struggling with uneven recoveries from the 2001 recession and possibly recession. The benefits of recent economic growth have been concentrated in ways that increased inequality. Neither migration nor trade are the fundamental forces tugging OECD countries away from the diamond-shaped societies created over the past half century, with progressive taxes to redistribute wealth and social safety nets for the poor. However, nationalist politicians can and do use worries about "foreign influences" to win votes, ensuring that there will not be a straight path to the increase in trade and migration desired by the World Bank and others to speed economic development.

Trade economists use the bicycle metaphor to argue for continuous trade liberalization, arguing that trade channels must be dug wide and deep so that protectionist pressures cannot quickly fill them in and impede trade. Migration policy making is often dominated by home affairs ministries, whose primary goal is control. They tend to favor the opposite approach of free traders – keep migration channels shallow and narrow to slow enlargement over time with recruiters and networks, unless rapid development makes emigration self-stopping.

Two examples illustrate the migration debate. For foreigners with at least a college degree, most OECD countries have made entry and employment easier, especially for graduates with STEM (Science, Technology, Engineering, and Math) and health-related degrees. They can often arrive with families, stay for years, and become immigrants and citizens. There are nonetheless debates between employers who want easy access to the world's "best and brightest" and critics who assert that STEM workers and nurses are cheap labor. The result in the US are 160,000+ requests a year for 65,000 work visas for STEM workers. Unions want additional worker protections, employers want to raise the quota, and they cannot agree.

Agriculture highlights another debate. OECD farm sectors kept large by subsidies and increased production of fresh fruits and vegetables have aging farmers who seek seasonal workers. Migrants fill the bill, since hourly wages of \$8 to \$10 an hour mean that a migrant can earn in an hour abroad a day's wages at home.

Agriculture has been associated with exploitation of vulnerable (native) workers, prompting concern about the exploitation of foreign workers. Canada seems to lie at one end of the spectrum, admitting seasonal workers under MOUs that give sending-country governments a role in recruitment and enforcement abroad. Spain and Italy regularly legalize migrants who find employers willing to enroll their jobs in tax systems. Germany and the US accept far more farm migrants, in part because they have loosely regulated and employer-friendly programs. The UK and Ireland allow Central Europeans free entry to fill farm and other jobs, while Japan and Korea allow farmers to marry foreign women who also do farm work.

These examples show that migration policy development in OECD countries is not moving steadily in a single direction. Migration is increasing, and the general direction of policy is toward the Singapore model of welcoming the skilled and rotating the unskilled. However, there are significant differences between countries, and steps forward and backward within countries.

There are many other issues debated in OECD countries that touch on migration. Most OECD countries have pay-as-you-go pension systems whose finances are strained by aging societies, meaning that ever-fewer workers are expected to provide pension and health care benefits for ever-more retirees. This is unsustainable, prompting debates over the proper balance between reducing benefits to retirees versus increasing immigration to increase the number of workers to support retirees. In most countries, immigration would have to be raised to very high levels to avoid reduced benefits, meaning that immigration may be part of the solution, but not the only solution to the impact of demographic changes on public finances.

Among the 1.2 billion people in more-developed countries, 17 percent are less than 15 and 16 percent are more 65 or older, that is, 2/3 are in the 15-64 working age group. However, the more-developed labor force is only 600 million, meaning that there are 300 million people of working age in industrial countries who are studying, housewives, or retired. There are debates in industrial countries about getting more of these potential workers into the labor force, and encouraging workers 65 and older to continue working. [In Idcs, 31 percent of residents are less than 15 and six percent are 65 or older, that is, a similar 64 percent of people are of working age. Some 700 million of the 3.4 billion ldc residents 18-64 are not in the labor force. In both dcs and Idcs, some non-workers would join the labor force if there were jobs].

Most Asian workers migrate to the Gulf oil exporters that are using oil revenue to build new cities and infrastructure. Migrant workers are employed in construction as

well as to provide services to fast-growing populations, and are often over 90 percent of private-sector workers. Most observers expect that, with oil-exporter labor forces expanding by five percent a year, there will be a “jobs crisis” that becomes evident when oil prices fall or property bubbles burst that could lead to instability that reduces jobs for migrants (Noland and Pack, 2007).

The Middle East is unique in having low labor force participation of natives, high unemployment rates among youth, and low productivity growth, suggesting that employers add low-wage migrants to increase output. The economic policy advice for the oil exporters urges the creation of “new industries” to employ young native workers in manufacturing or services ranging from back offices to health care because “nationalization” policies to substitute local for migrant workers have had limited success.

### **Migration and Development**

Sending workers abroad is becoming a more important source of jobs and remittances in many developing countries. Some small island economies depend largely on overseas jobs and remittances. The world’s 11<sup>th</sup> and 12<sup>th</sup> most populous countries, Mexico and the Philippines, have sent 10 percent of those born in the country abroad. Countries from Bangladesh to Sri Lanka and Vietnam have announced plans to send more workers abroad.

Sending workers abroad could speed development via the 3 R’s of recruitment, remittances, and returns. Recruiting some workers for foreign jobs should make remaining workers more valuable, as emigration puts upward pressure on wages in labor-sending countries. Migrants generate remittances, and the return of workers with new skills and ideas can accelerate development.

Migration and development experiences show that there is no automatic link between sending workers and faster development at home. Some countries that sent workers abroad in one period, such as Italy in the 1960s or Korea in the 1970s, imported workers a decade or two later, that is, they had a fast “migration transition” from labor sender to receiver. Other countries sending workers abroad for decades, including Mexico, continue to send large numbers abroad.

Countries seeking to send more workers abroad must confront several issues. First, many receiving countries worry about unauthorized migration, so they want assurance that migration will be self-stopping. If migration accelerates development, migrant workers today may not be followed by irregular migrants tomorrow.

Second, labor-sending governments want to protect their nationals during recruitment and employment abroad, and re-integrate them productively when they return. In the case of Mexico-US or Philippines-Singapore, migration has more often been the source of conflict rather than cooperation because of sending-government inability to protect migrants.

Labor migration involves migrants and employers as well as sending and receiving country governments. There is a search for policies that encourage cooperation between governments to achieve the control, protection, and development goals both want. Most examples of cooperative control, protection, and development policies are new, small, and untested. For example, several European countries have co-development policies that open doors for a limited number of guest workers in exchange for cooperation to reduce irregular migration. The agreements may have immediate impacts on irregular migration, as with Italy-Albania or Spain-Senegal, and may admit more guest workers, but their development impact is not yet clear.

Canada and the US admit seasonal workers from the Caribbean and Mexico, and Germany admits Poles, but the major purpose of such programs is to fill vacant jobs in the labor-receiving country, not promote development in migrant areas of origin. Such programs serve a control function as well, since enforcing labor and immigration laws is difficult in agriculture, and the alternative may be irregular workers.

There are also new cooperative programs in Asia. The UAE and Bahrain have proposed life-cycle approaches to labor migration, meaning cooperation between labor-sending and -receiving governments to reduce recruitment debt (and thus increase migrant productivity), encouraging remittances via formal channels, and reintegrating returning workers. It is not yet clear what the balance between control, protection, and development will be in these evolving programs.

### **Conclusions**

International labor migration, which involves about 100 million workers or almost three percent of the global work force, is likely to increase. The labor forces of OECD countries, when ranked by the best single indicator of earnings--years of schooling, have a diamond shape, with a broad middle of secondary school graduates. Developing country workers ranked in the same way have more of a pyramid shape, with fewer university graduates and more workers who did not complete secondary school.

Migration from developing to OECD countries moves workers from the top and bottom of pyramids to the top and bottom of diamonds, generating concerns that range from brain drains to wage depression in low-wage labor markets. Most research suggests that the economic gains from more migration outweigh losses, which include brain drain in sending countries and wage depression in receiving countries. Public opinion in OECD countries disagrees, often mixing fears of more migrants with fears linked to globalization and inequality.

Migration can speed development, but there is no automatic link. Most analysts agree that getting fundamental economic policies correct is the key to faster development; in such situations, the 3Rs can speed development. However, absent

necessary pre-conditions for development, migration can simply provide a safety valve for some workers willing to accept the social costs of separation from family and friends.

The Global Forum provides a venue for governments to discuss the key issues of control, protection, and development. There is no single best practice to balance these three in all migration corridors, but an increased understanding of best practices can help to ensure that legal labor migration protects workers and accelerates development, the win-win outcome governments seek.

### **Implications for Bangladesh**

Bangladesh is a country of 150 million whose population is increasing by 2.5 million a year. A third of residents are less than 15, promising rapid growth in the labor force for the next several decades.

An estimated 4.5 million Bangladeshis are employed abroad, including three million in the Middle East. Remittances of \$6.4 billion in 2007 were second only to garment exports as a generator of foreign exchange. A Ministry of Expatriates' Welfare and Overseas Employment was created in 2001 to encourage emigration and to protect Bangladeshi migrants abroad. The Bureau of Manpower Employment and Training operates resource centers to train women planning to be migrant workers abroad.

Three implications of global and regional trends may be significant for Bangladesh. First is the importance of diversifying destinations for migrants because OECD, Gulf, and other labor-receiving countries can have zigzag migration policies, first opening and then closing doors to migrants. Having a "portfolio" of destinations helps to cushion the pain associated with reduced opportunities in a particular labor market.

Second, is the importance of prioritizing governmental goals for labor migration. Most employers want vacant jobs filled, and most migrants want higher earnings. Receiving-country governments answer the how many, from where, and in what status questions, and are responsible to ensure that migrants receive equal wages and protections to protect both migrants and local workers. Sending-country governments want jobs for their workers, remittances for development, and protections for migrants, but they are often forced to make trade offs between e.g. numbers and rights for migrants. This trade off may be less than feared if governments help to improve the "quality" of their migrants, as with \$400 a month Filipino supermaids.

Third is finding room for cooperation. There has generally been more intergovernmental cooperation to reduce the cost of remitting small sums over borders than to reduce recruitment costs, in part because there are more economies of scale in sending money rather than workers over borders, but also because there are non-economic motivations for encouraging remittances via formal channels. Encouraging cooperation to reduce remittance costs could increase worker

satisfaction and productivity, benefiting labor-receiving countries, and increase remittances and accelerate development, benefiting sending countries.

Migration is a process to be managed, not a problem to be solved. Bangladesh has taken the first step toward improving management of migration by creating a government agency whose purpose is to promote and protect migrant workers. A maturing migration management system may resemble the economic policy process, which typically involves significant government ministries, an independent central bank, and international organizations to provide ongoing advice.

### **Further Reading**

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