

## Bilateral Guest Worker Agreements: A win-win solution for rich countries and poor people in the developing world

Lant Pritchett\*

Increasing the cross-border movement of unskilled workers and their families holds potentially huge gains for the developing and developed world. If rich countries were to permit a mere 3 percent increase in the size of their labor force by easing restrictions on labor mobility, the benefits to citizens of poor countries would be \$305 billion a year—almost twice the combined annual benefits of full trade liberalization (\$86 billion); foreign aid (\$70 billion) and debt relief (about \$3 billion in annual debt service savings).<sup>1</sup>

But the issue is highly contentious. Despite *irresistible forces* creating pressure for increased labor mobility, *immovable ideas* in rich countries have largely prevented it. The irresistible forces include demographics (especially aging populations in the rich world and the need for young, tax-paying workers to keep the economy running and support retiree pensions) and the widening income gap between rich and poor countries. The immovable ideas are the anti-immigration sentiments of a large segment of rich country voters, who have legitimate concerns about the impact of low-skill migrant workers on public services, possible security risks, implications for existing low-income workers, and potential cultural impacts.

The solution is to adopt labor policies that are as beneficial as possible to poor people in developing countries, but still politically acceptable to rich country voters. An innovative solution would be temporary legal work programs negotiated bilaterally, wherein rich countries take responsibility for certifying labor shortages in specific industries and labor-sending countries take responsibility for ensuring that temporary workers actually return home.

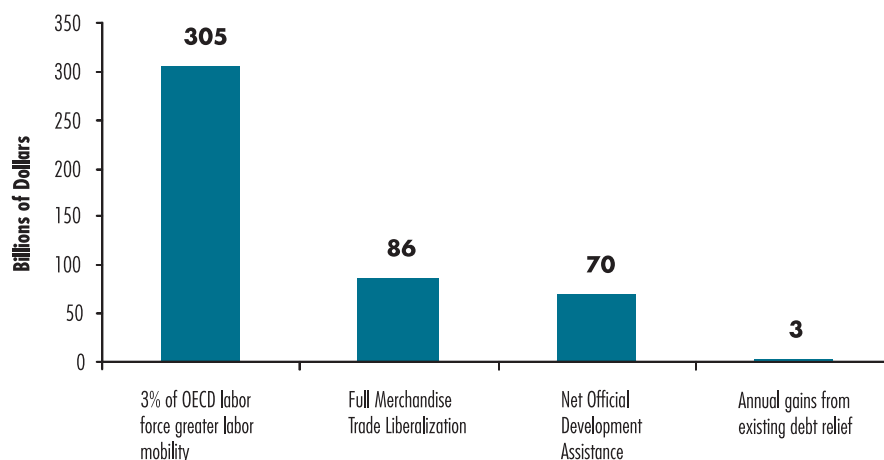
### Irresistible Forces Pushing for Greater Labor Mobility

There are five large and growing forces that make the pressure for mobility across national boundaries greater than ever before in human history:

- **Widening gaps between wages for unskilled workers in rich countries and poor countries.** In the 19<sup>th</sup> century the gap in unskilled wages between receiving and sending countries was about 3 to 1. The same gap today is more than 10 to 1. These gaps create pressure for migration because they are not primarily explained by differences in the skill-level of people who migrate.
- **Differing demographics.** Falling birth rates and greater life expectancy mean that populations in rich countries are aging rapidly. In neighboring poor countries, working-age populations are burgeoning. For example, the labor-force-age population of Italy is forecasted to shrink from 39 million to 26 million from 2000 to 2050, while the labor-force-age population of Egypt will expand from 40 to 83 million. This trend will pressure rich countries to accept greater labor flows and poor countries to send them.
- **Globalization of everything but labor.** The movement of goods, capital, and ideas has reached the stage where gains from further liberalization are tiny compared to the potential gains from increased labor mobility.
- **Rise of employment in “low-skill, hard-core nontradables.”** In the coming years, more than half of U.S. job growth—about five million new jobs per year—will be jobs such as home health care aides, janitors, cashiers, and fast food workers. These are low-skilled service jobs that cannot be outsourced to a developing country.

\* Lant Pritchett is a non-resident fellow at the Center for Global Development and a socioeconomist with the World Bank, based in New Delhi, India. This brief is based on his book *Let Their People Come: Breaking the Gridlock on Global Labor Mobility* (Washington, DC: Center for Global Development, 2006).

**Figure 1. A 3 Percent Increase in Labor Mobility Would Be Worth \$305 Billion a Year to Poor People: More than Aid, Trade and Debt Relief Combined**



Source: see Pritchett 2006.

- **Lagging growth in “ghost countries.”** If labor demand declines in a region whose workers are mobile, this will lead to outward migration and “ghost” towns. If labor demand declines in a region whose workers are not able to leave, income from relatives working abroad is often the only way to maintain or improve their standard of living.

## Immovable Ideas: Anti-Migration Sentiments

The five powerful forces pushing for the greater movement of people have created some increases in migration, but only a small fraction of the potential. This is mainly because in nearly all rich countries, migration is highly unpopular. In opinion surveys, fewer than one in ten people in high-income countries favor increased immigration.

This opposition to labor mobility is based on eight immovable ideas—immovable because they are difficult and painful to address head-on because they often go to very fundamental notions of justice and equity:

- **Nationality is a morally legitimate basis for discrimination.** It is widely regarded as morally illegitimate to limit people’s life chances because they were born a woman, are of a minority race or ethnicity, were raised in a certain religion, or have a physical disability. And yet it is considered permissible to discriminate based on where a person was born.
- **Moral obligations to others are based on proximity,** that is, whether or not the person lives within the same political jurisdiction. As long as a specific Haitian is suffering physically in Haiti, the moral obligation of the U.S. is nothing, or next to nothing. But if that same Haitian manages to arrive on the soil of the U.S., the moral obligation to that same person increases almost infinitely.

- **Development is about improving the well-being of nations, not individual people.** This idea says that labor mobility is not necessary to raise living standards in developing countries and may actually hurt them, through the “brain drain”—by having developing countries best and brightest move away.
- **Increased migration will hurt unskilled labor in rich countries,** lowering wages (or taking jobs away from natives) and worsening the distribution of income in receiving countries. Unlike many of the other ideas, this idea—grounded in simple supply and demand—is almost certainly true. This concern must be addressed; its impact must be mitigated by good policy.
- **Migrants strain public budgets, because they cost more in services than they pay in taxes.**
- **Allowing increased movement across borders increases the risks of crime and terrorism.**
- **“They” are not like “us.”** Many worry about “culture clash,” that the physical presence of others who do not share the same value systems would undermine the “cultural cohesion” of the existing society.

## Making the movement of labor work: Temporary worker programs

Any solution to the migration debate must take into account each of these concerns in order to be politically feasible. One development-friendly and politically feasible scheme is to expand legal channels for poor people from developing countries to work temporarily at low-skill jobs. This would include several features:

- **Receiving countries certify labor shortages in specific industries.** Quotas could be set by governments (by occupation and/or region) based on requests from employers, who would need to demonstrate a labor

**Table 1.** Immovable Ideas: Public views on migration

COUNTRY OR REGION	"Should immigration..." (percentages of those expressing an opinion)		
	Be reduced either "a lot" or "a little"	Remain the same	Increase either "a lot" or "a little"
GERMANY	78	20	3
ITALY	76	21	4
JAPAN	42	42	16
UNITED KINGDOM	68	28	4
UNITED STATES	66	26	8

Source: Mayda 2002, based on International Social Survey Program, national identity module, 1995, and the World Values Survey data on "open borders."

market shortage by showing that a certain number of jobs could not be filled. Requests for quotas would be subject to public review, including possible challenges from labor unions and other interested parties. This feature will help to address fears that unskilled foreign workers take jobs away from low-income citizens.

- **Sending countries ensure their workers return home.** In order to ensure that temporary workers really return home when their stay is over, receiving countries would reduce the sending country's future quota by one worker for each worker who fails to return home as scheduled.
- **Temporary worker programs governed by bilateral agreements.** Rich countries should enter into bilateral agreements with developing countries to govern temporary labor. Agreements between just two countries, or between small groups of countries, will be more politically acceptable than an overall agreement through a large multilateral organization such as the World Trade Organization.
- **Removing citizenship from the equation.** It is widely accepted for skilled labor that a "temporary physical presence" to provide services does not imply claims on social benefits—the acquisition of citizenship or entitlements to publicly provided services. To address the concern that temporary workers strain public budgets by using public services while not paying taxes, legitimate legal distinctions can be made about the use of non-essential services. In countries like the United States with a large population of undocumented workers, the issue of the future legal status of the existing migrants also must be addressed as part of a comprehensive reform.
- **Protection of the fundamental human rights of migrants.** To be politically acceptable in rich countries, programs need to emphasize that people coming to perform unskilled labor are not making "tragic choices" out

of economic desperation, but are making positive choices in which their dignity and rights are maintained.

## Benefits of increased labor mobility

**Both rich and poor countries benefit when rich economies admit low-skilled workers.** In Hong Kong and Singapore, for example, foreigners working as housekeepers and nannies account for 7 percent of the labor force (compared to only 0.3 percent in the U.S.).<sup>2</sup> These temporary household workers make it possible for more highly skilled women to work outside the home, raising national income by between 1.3 and 3.3 percent, and increasing tax revenues from the additional employment.

Globally, because of such benefits, a 3 percent increase in rich country labor forces through legal, temporary labor would result in a net annual gain of \$56 billion to current rich country residents, on top of the \$305 billion annual direct gain to migrant workers themselves and their families.

And while labor mobility is not always seen as a development issue, it should be. With huge differentials incomes for equally productive people simply because of where they live; with international and internal migration offering individuals one of the few nearly sure-fire ways to escape poverty, with migrant remittances from rich to poor countries exceeding foreign aid; and with rich countries designing immigration policies to selectively attract the poor world's most talented and motivated people—with all this it is obvious that international migration and global labor mobility truly are "development" issues.

Given the tremendous gains to be had from greater labor mobility—gains that far outweigh the risks—the international

community should work to find a development-friendly and politically feasible solution. Because the main forces blocking increased labor mobility are ideas, the most important agenda is to create new ideas—proposals that create development-friendly policies toward migration and create sustained pressure for the adoption of these proposals.

## Endnotes

- 1 Other estimates, which make different assumptions about rich-country labor markets, find benefits of \$156 billion for a pain of \$7 billion to permanent residents of rich countries.
- 2 These estimates are based on Michael Kremer and Stanley Watt, "The Globalization of Household Production," Harvard University, 2006.

## Further Reading

Clemens, Michael. *New Data on African Health Professionals Abroad*. CGD Working Paper 95. Washington, DC: Center for Global Development, 2007.

Dervis, Kemal and Ceren Özer. *A Better Globalization: Legitimacy, Governance, and Reform*. Washington, DC: Center for Global Development, 2005.

Kapur, Devesh and John McHale. *Give Us Your Best and Brightest: The Global Hunt for Talent and Its Impact on the Developing World*. Washington, DC: Center for Global Development, 2005.

Pritchett, Lant. *Let Their People Come: Breaking the Gridlock on Global Labor Mobility*. Washington, DC: Center for Global Development, 2006.

*Why Global Development Matters for the U.S.* CGD Rich World Poor World Brief. Washington, DC: Center for Global Development 2006.



1776 Massachusetts Ave., NW  
Third Floor  
Washington, D.C. 20036

[www.cgdev.org](http://www.cgdev.org)

# CGD Brief

**Bilateral Guest Worker Agreements: A win-win solution  
for rich countries and poor people in the developing world**

Lant Pritchett

---

March 2007