

Give the Guest Worker Program a Chance

by Dani Rodrik

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In today's global economy, companies source their inputs from four corners of the world, consumers shop at a global supermarket, and financiers can place their bets on any foreign currency that matters. But if you are a worker from a poor nation who wants to sell globally the only asset that you have--your manpower--good luck! What you encounter is not a flat world, but a system of restrictions and regulations more reminiscent of Stalin's Soviet Union.

The guest worker program included in the Senate bill on immigration is an important step towards redressing this lopsided and inequitable side of globalization. Critics of the program have focused on the adverse effects on U.S. wages and on difficulties in implementation. These are legitimate concerns. But they have to be considered alongside the huge benefits that a well managed temporary work visa scheme would generate.

Because the U.S. economy is so productive, each foreign worker who is employed here earns a multiple of what he would get in his home country--a difference of around \$17,500 per year for a Mexican worker in the U.S., according to estimates by Yale economist Mark Rosenzweig. Multiply this by 200,000 guest workers per year, and at the end of a decade we would be generating an income gain of \$35 billion per year for workers from poor nations. This exceeds the amount that the U.S. spends on foreign aid (\$23 billion in 2006). It is also larger than the total benefits poor nations are projected to reap, \$30 billion at the outside, from the conclusion of the current round of multilateral trade negotiations, which focus on a global reduction in agricultural and other trade barriers. And unlike foreign aid and trade agreements, the benefits in this case go directly to working people. So if the U.S. wants to do some good for the developing world, while helping its own economy, there is scarcely a better way to go.

To be sure, proper safeguards are needed for the guest worker program to work as advertised. Ensuring that return rates remain high is important both for the program's political sustainability in the U.S. and for maximizing its contribution to the home countries of the workers. Crafting the right mix of carrots and sticks is essential. Employers have to accept greater scrutiny and reporting requirements. Workers must have a portion of their earning deposited in escrow accounts, which would be forfeited in the absence of return. It is the absence of appropriate incentives that explains why other "guest" worker programs—Germany's being the best known example—have turned permanent.

One can be even more ambitious and extend the incentives to the home governments of the guest workers themselves. Imagine for example that home countries were told that their quotas in future years would be reduced in proportion to the numbers of their

citizens that failed to return. This would induce these governments to create a hospitable domestic environment that encouraged return.

Whatever the practical difficulties, the potential gains are simply too large for us not to try. This is one of the few ways in which we can make a real difference to the world's working poor and do so in a way does not rely on trickle down.

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