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A Market for Work Permits

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Barriers to international labor migration are a major factor in explaining intercountry gaps in the marginal products of labor. Large economic gains can result from reducing those barriers. The main economic barrier is that, almost everywhere, a foreigner needs official permission—typically in the form of a work permit (WP)—to take up employment in the host country. Binding quotas on the supply of WPs create an excess demand for permission to work in high-wage countries among people living in relatively low-wage countries.

Despite the likely economic gains from freer migration, there is much resistance in host countries. The citizens of high-wage countries often view migrants as a threat to their living standards and so resist reforms that would help free up migration. That resistance also reflects a cultural backlash in some quarters against migrants, though to some extent this backlash also stems from economic insecurity. Migration will continue to be restricted unless we can figure out a way to ensure that international migrants are seen as an asset from the perspective of citizens of the host country rather than a threat.

A clue into how that might be done is found in the fact that citizens have a legally recognized right to work—an entitlement to accept any job offer in their own country once one reaches the legal working age. We can call this the citizenship work permit. This is undoubtedly the most valuable asset held by most low- and middle-income workers in high-wage economies—probably 90 percent or more of their total wealth. However, currently, that asset is not something that a citizen can cash in on. The main asset of most poor people in high-wage economies is a nonmarketable entitlement.

Yet there are times when some citizens would be happy to rent out their (implicit) WP. At any one time, there are both foreigners who want jobs at the higher wage rates on offer in rich countries and workers in those countries who have something they would prefer to do than work for a wage. We have a missing market in WPs.

Restrictions on international migration for work are the root cause of this missing market. Even without those restrictions, citizens would still not be able to rent out their WPs—to monetize this important asset of citizenship—but that is a moot point, since nobody would have any interest in buying it. However, removing all such restrictions is clearly a tall order. There is another policy option—to create the market that is currently missing. Host-country workers would be granted the legal option of renting out their implicit citizenship work permits for a period of their choice, while foreigners would purchase time-bound work permits. The market would be anonymous, with no need for personalized matchings of buyers with sellers.

We explore that option and argue that creating a market for WPs not only generates aggregate output gains from freeing up migration but enhances social protection in high-wage countries—providing both insurance and relief from poverty and doing so in a way that is self-targeted rather than requiring administrative assignment of benefits. Importantly, migrants become an asset rather than a threat to workers in the host country.

There have been proposals for selling passports or work permits and some examples of these in practice. However, we have argued that the proposals have been incomplete in an important respect: they have not eliminated the underlying market failure. Alongside the current excess demand

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for work permits, there is a potentially large supply side, namely all those workers in high-wage economies who would be happy to rent out their work permits as long as they are adequately compensated. There is much they could then do, such as coping with economic and health shocks, financing education or training, providing care for loved ones at home, or simply taking a long vacation.

The host country would benefit from adopting this policy in several ways. Relatively less-productive workers who currently have little option but to join the labor market would be replaced with more-productive workers, raising gross domestic product (GDP) and tax revenues. The former workers would have new opportunities, including raising their future returns in the labor market. The system can be designed to avoid changing the total number of jobs (or total hours worked) in the host country, although the skill composition of employment will change, probably lowering wage inequality. There would be important complementarities with social protection goals. Creating a market in WPs also avoids the need to discriminate against migrants by extra taxation or diminished rights, thus avoiding the tradeoff between migrant welfare and freer migration. What's most important in our view is that this new market would relieve the public's concerns about freer migration by helping to attenuate the negative externalities in the host countries seen to be generated by migrants and refugees. International migrants would surely become more popular in the host countries.

The new market could be implemented using a web platform managed by the host government, which would retain its monopoly over the supply of WPs. A citizen would register on the site, then go through some background checks (for example, to verify age). Once cleared, a citizen submits an offer to rent out a WP, with a stipulated duration, start date, and minimum asking price. At the same time, potential buyers submit their maximum bids. The software finds the market clearing price such that total labor time is approximately equal on the two sides of the market over some reasonable period.

Illustrative calculations for the United States and Mexico suggest that the missing market is large, with 18–36 million participants (depending on the chosen tax rate on WPs and other parameters). For example, with a 10 percent host-country tax on the WPs and a 10–20 percent remittance levy on the U.S. wage earnings of the Mexican migrants (to cover demands from home that would not have been made without migration), the equilibrium price of the WPs would be about $20,000 per year, and around 30 million workers would participate. The tax revenue would be around $300 billion, and the gain in earnings would represent about 6 percent of GDP. The poverty rate in the United States would fall to under 10 percent, reflecting the pro-poor feature of the market's implicit targeting mechanism.

Our simulations for the United States and Mexico are only intended to be broadly indicative of orders of magnitude under certain (explicit) assumptions about the key parameters. The sensitivity of the precise empirical results to the extent of the frictions to international migration points to the need for further research on specific costs of migration. Although the stylized policy leaves aggregate employment unchanged, the likely compositional effects on labor supply point to general equilibrium implications. Further exploration of these and other issues appears to be warranted, given the potential benefits of a market for work permits.

NOTE:

This research brief is based on Michael Lokshin and Martin Ravallion, "A Market for Work Permits," NBER Working Paper no. 26590, December 2019, http://www.nber.org/papers/w26590.