

The Economist

Migrant workers in the UAE

Wages of chagrin

A reform highlights how much the previous regulations were suppressing pay



MANY in the Western world may fret about excessive immigration, but in truth its borders are relatively closed. In 2015 migrants made up 15% of America's population, compared with 88% in the United Arab Emirates (UAE). Migrants go to the Emirates in search of higher wages; 65% come from Bangladesh, India and Pakistan. But the flipside of the UAE's astonishing openness to foreign workers is a draconian regime that restricts their rights and turns a blind eye to abuses. Those restrictions have been loosened slightly in recent years, happily, which has made it possible to quantify just how harmful they are.

To obtain a visa to work in the UAE, a migrant must first receive a job offer from an employer. (In practice, recruiting firms act as middlemen, handing out job offers to suitable candidates in exchange for a big fee.) The worker then becomes legally dependent on their employer in various

ways under a system of *kafala*, or sponsorship. Some workers are housed in large labour camps; the government collects fees from employers to cover the cost of catching and deporting workers who abscond.

It used to be worse. Until recently workers needed their employer's permission to seek a job anywhere else, even after their original contract had expired. Employers, in other words, held all the cards, which helped to keep wages low.

In late 2010, however, Saqr Ghobash, the UAE's reform-minded minister of labour, issued a decree allowing workers with contracts expiring after January 2011 to look for

work elsewhere after they had served out their contracts. Some employers grumbled, aware that this would raise the cost of labour.

The sharp cut-off point was a gift for economists, as it made it easy to compare behaviour before and after the reform. Suresh Naidu of Columbia University, Yaw Nyarko of New York University, Abu Dhabi and Shing-Yi Wang of the Wharton School of Business used the Ministry of Labour's database on contracts as well as data on wages to do just that, in a forthcoming paper to be published in the *Journal of Political Economy*. They found that the impact of the new rule was big and fast. Workers' real wages jumped by more than 10% in the three months after their contract expired, whereas before the change they barely moved at all.

Even though the reform made it easier for workers to change jobs, the fraction of workers renewing their contracts increased. More than twice as many workers did go to a new employer, but this was because far fewer of them left the country altogether after their contract expired. Over the first three months of the reform, the rate at which people returned home dropped by about four percentage points, from a baseline of around 12%. Workers' original employers, Mr Naidu explains, were offering higher wages to persuade them to stay on, while higher overall earning power was keeping more workers in the country. "Before the reform you're not allowed to switch, and after the reform you don't have to switch," he says.

The change also allowed the authors to calculate how much employers' power had been suppressing wages. They worked out that wages before the reform were about half what they would have been under a perfectly free market. The reform increased wages to around 73% of their free-market value, by their reckoning.

In January of this year Mr Ghobash went further, allowing workers to leave their jobs even before the end of their contract, as long as they serve out a fixed notice period. That is likely to reduce employers' power to suppress wages even more, although Mr Naidu expects that the reform will be of more benefit to skilled workers, who want to switch to jobs that match their training better, than to the legions of foreign labourers on construction sites in the Emirates.

Some will not benefit from the liberalisation. Maids, nannies and other domestic workers (mostly women), who are subject to some of the worst abuses reported by groups like Human Rights Watch, have largely been excluded from the new freedoms. And the ability to switch jobs is no help to the millions waiting in the subcontinent for a chance to work in the UAE. Mr Naidu and his co-authors found that after the reform in 2011 companies hired fewer workers from abroad, and did not increase the salary of those they did hire. Instead, they kept on existing workers, who were on average more productive.

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