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The value of labor market information systems on international labor mobility

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The Asia-Pacific Economic Cooperation (APEC) initially developed its Labor Market Portal in 2014 to create an integrated system that can support the collection, management, and dissemination of labor market information. However, the said portal is currently underutilized given the limited data contribution from APEC economies.

This *Policy Note* discusses two main labor market information issues: the information asymmetry and transaction costs. Given the argument that weaknesses in labor mobility can ultimately be addressed through a freer exchange of information, understanding these two problems will lead to a better appreciation of a more comprehensive labor market information system.

Relevance of information in the labor market

The underutilization of the APEC Labor Market Portal is surprising given that information is one of the requirements for an efficient labor mobility. An information system is necessary for matching migrant workers to appropriate jobs. While employers are looking for the best workers available at the least cost, workers seek the best labor market outcome in the form of wages, benefits, and working condition package available given their skills and market conditions.

However, the globalization process, including the inherent potential for financial and economic crises, can lead to widespread job destruction and alarmingly high unemployment and underemployment rates in most countries (Bacchetta et al. 2009). As such, current job seekers may enjoy fewer job opportunities

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and are more likely to accept part-time and informal employment and work not well matched to their skills. Such jobs tend to provide less specialization and limited opportunities for skill development and lead to scarring effects on individuals' careers. While job creation and labor mobility are necessary to tackle high and increasingly persistent unemployment, promoting jobs without paying due attention to the matching of quality and to skills required may only buy time and prolong unemployment.

With full information, the free movement of workers will be sufficient to achieve the most efficient outcomes. Matching is performed better as the choices of both jobs and workers are large enough to allocate workers to different jobs. Thus, labor mobility itself enhances the markets as it can create the economies of scale needed in job matching.

Furthermore, because of the importance of information, the private sector has been dominating the recruitment industry. Public employment service is beginning to engage in information since the private sector can no longer handle or can only handle less efficiently a growing volume of migrants. However, as labor mobility expands, markets can prove to be unreliable in bringing about efficiency.

Information asymmetries

In standard economic literature, asymmetric information refers to situations in which some workers in a transaction possess information that employers involved in the same trade do not (Do 2003). In the labor market, when the information is asymmetric, wages are distorted to account for the uncertainty and do not achieve optimum exchange. Standard government interventions, such as regulation of workers to limit unwanted migration or subsidies to alleviate the effects of adverse consequences, are no more sufficient to restore optimality.

In the labor market, information problems have two main consequences on workers' quality and their contribution to the total output. First, given that employment contracts rarely specify all aspects of the workers' level of effort, employers cannot measure the productivity of workers on which their payments are based. If workers decide not to reveal their true productivity and if the workers' efforts are unverifiable, employers may face a moral hazard problem in setting out the proper wages.

Second, because of the worker diversity, their potential productivity is unknown to the employer. Workers can then be misallocated to tasks and sectors. Such misallocation may lead to adverse selection, especially if the average wage rates offered drive out the more productive workers.

While the first consequence may be solved by adopting piece-rate or share-rate arrangements (Otsuka and Hayami 1988), employers can only mitigate the second problem by distinguishing the workers through their characteristics. With this process, the workers with more experience and exposure in the market will be preferred. Consequently, the supply of workers who do not have these qualities may be reduced and their wages may be lower (Foster and Rosenzweig 1994).

From a survey of firms in the United States (US), Campbell and Kamlani (1997) attributed wage rigidity in the face of significant unemployment

to the presence of asymmetric information. Firms in general are wary of reducing wages because doing so can cause the more productive workers to quit, leaving the less productive workers to stay in the country. Hence, despite the possible presence of less productive workers, wages remain constant. Applied to labor mobility, because of the rigidity of wages from this concern, unemployment remains and access to labor is restrained.

Fortunately, solutions to the problem of asymmetric information exist. Among these solutions is the establishment of labor market information systems, which provide employers greater access to information.

Consider the value of improving the employers' access to skills certifications, such as those offered by the Technical Education and Skills Development Authority (TESDA) to their trainees in the Philippines. Employers abroad may be able to check a worker's certificate on a website and even find a list of local workers who may have also earned a similar certification. If previous employers are able to post comments on the website, new employers may be forewarned about an unscrupulous dealer selling lemons. Consumers could even educate themselves regarding basic training and quality assurance provided by TESDA.

The above example indicates the significance of a national qualifications framework (NQF). The International Labour Organization (2007) defines an NQF as a framework which classifies and registers qualifications according to a set of nationally agreed standards for levels of learning/skills obtained, thus allowing the comparisons across sectors and economies possible. Nine APEC economies (Australia, Brunei Darussalam, Canada, Hong Kong, China, Malaysia, New Zealand, Singapore, the Philippines, and Thailand) have already developed some form of NQFs (APEC HRDWG 2009).

A regional qualification framework (RQF) can also identify skill imbalances through the compilation of reliable data on the stocks and flows of qualifications. Without a detailed RQF, educational and training institutions may be falsely comparing greatly varying qualifications.

For workers, this type of data can be useful for the following conditions. First, an easily accessible occupation and industry classification systems can inform them of the imbalances in their specific skills. Second, the data collection systems should necessarily collect adequate information to identify shortages and surpluses. Third, the quality of information allows better matching.

Transaction costs

Transaction costs refer to the costs of measuring the valuable attributes of the commodity exchanged and the costs of providing and ensuring the desired attributes in the course of completing a contract (North 1990). These costs are significant in poor economies where communications and transportation facilities are poor, markets are segmented, and access for market participation is restricted.

In competitive labor markets, information about the prevailing market prices and information on the respective features of labor demand and supply are available, and a range of possibilities are provided to buyers and sellers to arrive

at the optimal contracts. The presence of transaction costs, on the other hand, suggests that participation in markets does not lead to the best interest of the parties concerned. In any given labor contract, because of different sources of uncertainty, incomplete information, and other marketing costs, the types of contracts arranged by workers and employers can be suboptimal mainly as a second-best response to incomplete markets. Such arrangements and structures, in turn, may lead to inefficiencies in productivity and inequitable income distribution.

Clear examples of transaction costs are remittance fees which represent a drain on the resources of poor migrants and their families in the countries of origin. High remittance fees decrease the flows of funds through formal channels, especially banks, as migrant workers are reduced, and for those who migrate, informal networks can be organized to remit their earnings. In the end, if the purpose of migration is to send remittances, the continuation of labor contract can be threatened by significantly higher fees.

The remittance fees on labor markets lead to a wedge between the wage that the worker receives (buying price) and the wage or remittance that the households receive (the supply price). In competitive markets, the buying and selling prices are equal, resulting in an equilibrium level of international labor mobility. With a wedge between these prices, participation in the labor market for particular types of workers can be limited (see Lanzona and Evenson [1997] for an example in rice economies).

The magnitude of transaction costs can partly be attributed to the institutional development in a given economy. As Williamson (1989) argues, the economic organization or governance structure depends on the nature of the transaction costs and the attempt of the firms to minimize these. Under the framework of transaction cost economics (TCE), markets have difficulty dealing with some transactions because of various reasons: asset specificity, bounded rationality, and opportunistic behavior by the parties to the transaction. In the exchange of labor services, given that employers and workers can easily walk away from pure, spot-market transactions, markets offer no protection against opportunism when transaction-specific assets are involved.

Under the TCE framework, contracts can, to some extent, offer some protection to workers by engaging them and their employers together for a specified period. However, bounded rationality impedes comprehensive *ex ante* contracting that specifies how the parties will behave in all possible circumstances. As stated by Hagen (2008, p. 238), "[i]f contracts are inherently incomplete, parties may perceive potential gains from opportunistic behavior." As a result, attention must be focused on more complex (or internalized) governance or institutional mechanisms to fill gaps in the contract, settle disputes, and adapt to new conditions. Depending on the institutional arrangements in a given country, contracting parties may also make ex ante efforts to screen counterparties in terms of reliability or reputation, and/or design *ex post* safeguards to protect and provide security workers. In the process, demand may be lower as the security of workers can lead to greater costs.

Various contractual arrangements designed to reduce transaction costs have emerged,

resulting in the greater variances in labor mobility policies and laws. However, Goldberg (1985) defines transaction costs alternatively as those costs originating from differences in the implementation of institutional arrangements. In the case of migration, workers and employers are not clear where and why institutional restrictions exist and in which country they are equivalent in terms of implementation of these rules. In effect, costs may exist because of the difference between what a certain economy could have accomplished if rules were enforced (*de jure* aspirations) and what actually happened (*de facto* situations). In effect, differences in laws dealing with labor contracts hinder mobility because the workers cannot interpret the nuances of existing laws. The cost of conducting transactions in one organizational or contractual form relative to the others can be constraining.

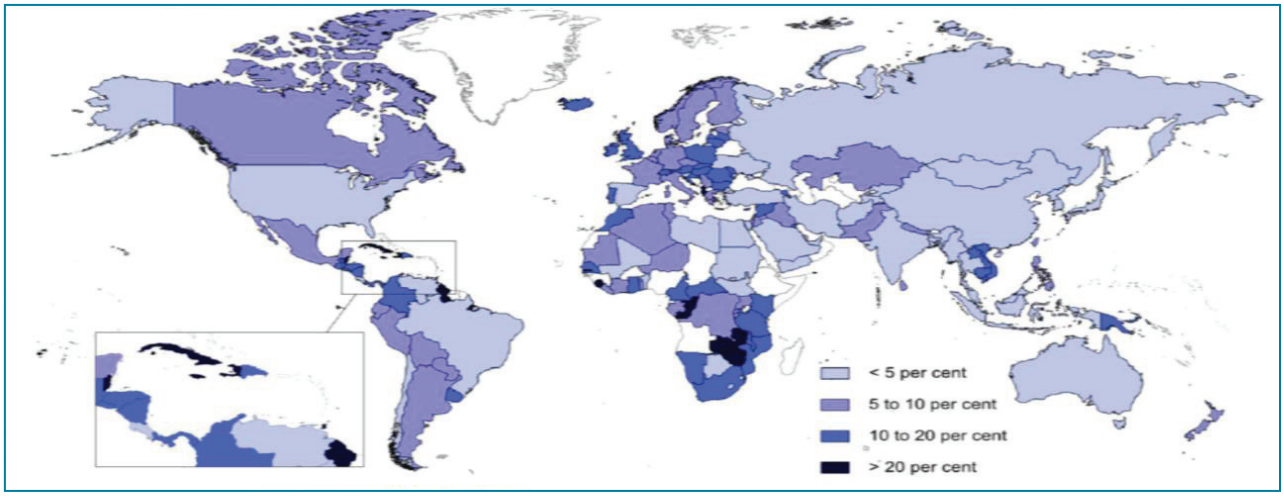
Workers who wish to engage formal arrangements are thus discouraged from moving cross-border by differences in laws across countries, the number of countries with which they would wish to move, the cost of compliance with the laws, the exact litigation costs, as well as numerous other variables. However, such formal contractual arrangements may be too expensive for unskilled workers (e.g., domestic helpers) who are qualified and motivated to work. Such costs may not deter the unskilled, mostly contractual or seasonal workers, who travel temporarily from one area to the next in search of better opportunities. Therefore, "what matters is not the absolute amount of transaction costs but the relative ranking of transaction costs associated with different organizational or contractual choices" (Wang 2003, p. 4). In the process, informal arrangements can emerge in order to lower the costs relative to the formal channels. For instance, in the case of remittances, informal means of sending remittances can be formed to limit the costs to the workers.

Unskilled migrant workers are often tied to informal arrangements especially because they are more willing to move or live in working sites relative to the domestic unskilled workforce which tends to be attached to particular geographic locations. As a consequence, although their contracts are mostly temporary in nature, these unskilled migrants are willing to move to other countries where services are required and as long as the net benefits of sending remittances are higher.

In the case of the Philippines, the outflow of unskilled workers has increased disproportionately since the 1990s and they have proliferated in the Association of Southeast Asian Nations (ASEAN) region as well as the rest of the world. Because of lower reservation wages, unskilled workers are more likely to engage in migration than skilled workers without much protection. In fact, the emigration rates of the highly skilled to the Organisation for Economic Co-operation and Development (OECD) member-countries revealed that much of the migration of APEC to the OECD is comprised of unskilled workers (Figure 1). The OECD provides a good baseline not only because some of these countries are member-economies of APEC but also because they represent mostly the receiving countries in the world with their advanced technologies and highly educated population.

If the work on offer is temporary, seasonal, or unpleasant with unsociable hours, some employers reported the unreliability of local

Figure 1. Emigration rates of highly skilled to the OECD, 2010–2011



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Source: Organisation for Economic Co-operation and Development (2011)

domestic workers compared to the migrants as their inability to sustain the pace of work required, and unwillingness to work under unsociable shifts, thus causing very high attrition rates. This is explained by the research of the Migration Advisory Committee (2014) in United Kingdom, indicating the high demand for this particular persevering work ethic of unskilled labor in these particular types of contracts. The migrants' supposed better work ethic was most commonly found in low-skilled sectors such as agriculture, food processing, social care, and hospitality service. The same research also has noted the migrants were less likely to join a trade union which allegedly resulted in a better work ethic.

However, while the demand for unskilled work exists, they are vulnerable to informal and even illegal arrangements because of the transaction costs associated with formal and legal arrangements. For example, aside from criminalizing illegal recruitment, the Philippine government has actually taken no action to regulate the flow of unskilled workers. In fact, the government has an implicit policy of promoting it because of the potential remittances, which have been the source of much of the country's foreign reserves. The migration of unskilled labor remains one of the best options for the poorest workers to move out of poverty. Indeed, despite its dangers and instability, unskilled labor migration has a greater impact than skilled labor on productivity and distribution. It is then viewed as prudent on our part to keep this option available.

Nonetheless, because more informed informal recruiting agencies are able to manage and manipulate the transactions without much regulation, abuses of low-skilled workers can continue and are not expected to decrease. One solution is to enhance information campaigns dealing with institutional features. Despite widespread recognition of the importance of unskilled workers as an effective workforce, no

robust and widely implemented systems for the collection of data on the type and extent of the demand for and supply of unskilled workers have been done in order to allow them to participate in formal arrangements at least costs. This is partly due to the difficulty of measuring attributes such as creativity, empathy, and flexibility. More importantly, the institutions themselves have not focused on improving their conditions. Until such measures are developed, data on the nature and extent of the workforce will remain inadequate, not just within APEC but globally.

Clearly, identifying labor imbalances is not enough. Specific information on key institutions creating such imbalances are more crucial. For example, the information should be designed differently depending on the varied forms of institutions that dominate a particular economy. Hence, data collected on institutions must focus on permanent migration (Australia, Canada, New Zealand, and the US) and/or temporary workers (Chinese Taipei, Singapore, and the US) to acquire highly demanded skills. On the other hand, different information can be created for institutions that deliberately develop surpluses (e.g., Philippines) with the purpose of sending workers offshore. By focusing on the different types of institutions in the regions, the values and the priorities of a given economy can be noted and all types of worker migrants can be considered in a well-functioning labor market information system.

Recommendations

The paper shows that both problems of asymmetric information and transaction costs can be dealt with by creating a labor market information system. Such system not only provides information on the migrant transactions and market imbalances but also on the kinds of rules, contracts, and institutions that frame such transactions. Limiting the information gathered on demand and supply factors can cause us to focus only on a particular type of labor, say skilled worker, and hence may lead us to ignore other (perhaps informal) forms of labor comprising a substantial part of labor mobility.

Several key directions can be made in the establishment of a labor market information system.

First, the various codes and laws governing the different types of labor markets found in each economy must be examined and standardized. Broader support and agreement for standards among the APEC economies should lead to more transparent and less fraudulent methods of entry. The establishment of standardized rules and institutions is a win-win proposition for the global economy and the individual economies. This calls for the labor market deregulation in more advanced economies which have not kept pace with the trade in goods and financial liberalization.

Second, if short-term unskilled labor flows are generally preferred over long-run skilled labor migration, then more information should be gathered on the latter. Apart from supporting the workers engaged in these forms of contracts, such gathering also creates an environment that seeks better alternatives toward more specialized and more lucrative forms of migration. The information from the system can also reduce the transaction costs that create a wedge between the wages received by the worker and the true wages paid by employers. The idea is to reduce the role that recruiters and

other middlemen play in these transactions and provide more benefits to the workers.

Finally, greater information should be gathered on social networks that have been proven to be effective means of labor mobility. As riskier routes of labor mobility are developed, the goal is to make labor mobility efficient and more transparent by expanding particular social networks that encourage labor mobility. For instance, the ASEAN policy on visa-free entries for three weeks for all citizens of ASEAN nations should be expanded to all APEC economies for consistency. The presence of such flows indicates to a large extent their viability and resilience, as well as their ability to integrate efficiently varied preferences and institutions into the process. Enhancing such networks—even only within subregions of APEC—can be basis for expanding toward greater mobility of labor. Once this is achieved, larger flows of workers and business can be realized.

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