



INDIAN IMMIGRATION POLICY AND THE TRANSNATIONAL PREVAILING WAGE FOR IT WORKERS

Posted on October 25, 2010 by Cyrus Mehta

By Gary Endelman and Cyrus D. Mehta

For many years, those concerned about the hemorrhaging of good paying jobs to India, especially in the IT sector, have blamed overly liberal US immigration policies for their ills. Precisely the opposite is true. Right now, there is a deep and growing IT shortage for world-class talent in India, something that is openly acknowledged in the India press and by top Indian corporate leadership, <http://bit.ly/d5TSsO>. Even an Internet giant like Google is having a devil of a time in recruiting top-drawer talent, <http://bit.ly/a2kT22>. Despite the huge numbers of engineering graduates each year, a far smaller number are employable in the global economy and Indian IT firms are increasingly forced to launch innovative initiatives in a desperate attempt to solve the problem, <http://bit.ly/cFMSIn>.

In response to this talent crunch, Indian IT firms have been compelled to raise salaries. Already, wage inflation is a fact of life in India. The low wage advantages of India are steadily being eviscerated. <http://www.indiadaily.com/editorial/17290.asp>. Yet, despite this sharp rise in compensation, the fact that inflation is going up even faster threatens to wipe out much, if not all, of these highly prized gains. <http://news.bbc.co.uk/2/hi/business/8563743.stm>

Faced with all of this, how has the United States responded through its immigration policies? By adopting manifestly inadequate immigrant visa quotas combined with a miserly 65,000 H-1b visa allotment, the United States has done its best to keep the best and the brightest Indian IT talent at home. As a

result, the talent shortage, while severe, and the wage inflation, while undeniable, has not nearly been as far reaching or dramatic as they would have been if US policies were more welcoming. In effect, US immigration policies have achieved the worst of all possible results. Indian IT workers do not earn as much as they could or should; as a result, they spend and consume less so that there is a reduced stimulative impact, thereby diminishing the purchasing power of all sectors of the Indian economy who depend upon the IT salaries for their own well being. Beyond that, precisely because they serve as a powerful though unintended depressant upon Indian IT wages, protectionist US immigration policies promote the exodus of white collar IT jobs and allied occupational opportunities from the US to India! How? Simple. Read on.

Despite what the US Department of Labor thinks, there is a transnational prevailing wage that governs IT compensation irrespective of national boundaries. The greater the difference in IT salaries between the US and India, the more pressure will be exerted upon IT employers in the US to leave and the greater will be the loss of jobs, not to mention the loss of many allied jobs that depend upon the continued presence of a vibrant IT sector. Correspondingly, if the IT wage differential between our two economies narrowed, the pressure to outsource would ease. If we wanted to even the playing field, the US would greatly expand both temporary and permanent work visas for India in the IT professions so that more IT jobs would remain here and Indian IT workers would be able to keep pace with inflation. It is a win-win situation. Right now, by bashing Indian migration, immigration restrictionists are accelerating outsourcing and enabling India to develop an effective strategic alternative to Silicon Valley years faster than need be happening.

It seems as if India is coming to the rescue of the United States. The Indian Ministry of Home Affairs (MHA) has announced the elimination of the prior odd 1% quota rule for all employment visa applications filed by Indian host companies or a maximum of 20 foreign nationals per company. To qualify for employment visas, the workers must now be highly skilled or professional, and in addition to meeting the other visa requirements, demonstrate that they will be paid a salary equivalent to at least \$25,000 per year. This minimum salary requirement does not apply to ethnic cooks, interpreters or language teachers (other than English language teachers), or staff working for an Embassy or High Commission in India. Full details of the new rules for an Employment Visa are set forth in the Indian Ministry of Home Affairs FAQ, pp. 6-7,

http://www.mha.nic.in/pdfs/work_visa_faq.pdf.

By restricting work visas to highly skilled workers making at least \$25, 000, India is not only reducing the transnational wage differential but essentially eliminating it since the true wage for visa issuance will be \$75,000. It is an article of faith that wage recoupment must be 3 times the normal amount in order to compensate for all other inefficiencies inevitably associated with the outsourcing process. If we cannot adopt intelligent immigration policies to save ourselves, it seems that India will do it for us.

It is true that the Indian rules only affect foreign knowledge workers rather than directly changing the wage scale for the domestic work force. We also note that the Indian rules apply to highly skilled workers across the spectrum, although our essay focuses on IT workers. However, the indirect impact is profound, greatly exceeding the sheer numbers which will be limited. Foreign IT workers earning \$25,000 in India can exert enormous purchasing power upon other sectors of the Indian economy that will inevitably benefit. Beyond that, these changes create a two track wage system, one for foreigners and one for Indian workers. Inevitably, the two will exert an influence upon each other. Indian workers will demand equal wages for equal work, refusing to be paid less than their foreign colleague at the neighboring work station doing the same work but earning much more. They will move to another country if denied for these are the Indian IT gurus who enjoy global occupational mobility, a freedom without precedent in Indian history. The inflationary pressure exerted by foreign wage levels upon domestic compensation will increase as we climb the food chain so that the more experienced workers, the supervisors and experienced IT professionals whose expertise makes outsourcing from the United States possible, are also the very same workers who will demand that the wage gap between the two wage systems be narrowed, if not eliminated. This is precisely what will happen over time as Indian companies seek to alleviate the talent shortage whose existence poses a real and direct threat to Indian IT world market share. Ironically, India is repeating the mistakes of the H-1B labor condition application where the wages of foreign workers are kept artificially high not in response to actual market conditions but solely as a result of government diktat. As in the United States, this is an unsustainable condition whose primary consequence will be the injection of systemic wage instability that complicates intelligent business planning and spreads pervasive incoherence.

It also remains to be seen how India will administer the other requirement in the MHA FAQ that "Employment Visa shall not be granted for jobs for which qualified Indians are available." How will that be determined? It is hoped that the visa applicant is allowed to make the case, and India does not adopt the rigid rules of the US Labor Certification system, requiring employers to undergo an artificial test of the labor market to establish that no US worker is available for the position. This system has been an abject failure in the US. Serving mainly to frustrate employers, it has conspicuously failed to expand job opportunities for domestic workers. One hopes that Indian officials will accept an employer's attestation regarding shortage of skills in the occupation that will be filled by the foreign worker, along with the business need to hire such a person in India, supported by general statistics of shortage of talent in a particular occupation.

We cannot help but observe, though, that India is learning precisely the wrong lessons from the United States. For both nations, giving in to domestic protectionist pressures amounts to a voluntary and wholly unnecessary surrender of global market share. Expansion of bureaucratic restraints upon the IT sector may satisfy domestic critics but it will undermine job creation. If India adopts the "minimally qualified" standard that has given labor certification in this country its Twilight Zone character, the vitality of the IT industry which drives the entire Indian economy will suffer a powerful blow with untold consequences for India and the world. Once India's immigration policies turn inward, a fateful, perhaps irrevocable step has been taken. Economic leadership in the 21st century will fall to those who win the global competition for talent and innovation, much as the race to capture natural resources shaped the recent past. Enlightened immigration policies that view the movement of human capital as an asset to be maximized rather than a problem to be controlled are central to seizing and defending the economic high ground. Will India turn away from the future and can the United States seize the unexpected opportunity this presents?

There is a silver lining in this for India as well. While wage inflation will cause a temporary loss in market share, in the long run, it will serve to refocus the Indian IT industry on the core need to win clients by superior service and quality of performance, precisely the character traits that has and will serve India well, long after their short-term low wage advantages had disappeared. National greatness cannot rest upon a race to the bottom. That is not where

India's future lies. The sustained pursuit of excellence is a goal to which India can and should dedicate itself for only this will allow the full and proper development of its enormously impressive talent base. Over time, not only will fewer IT jobs flee America, but higher Indian wages, both within the IT sector and beyond, will make possible the creation of a business model that can sustain Indian leadership in IT and reinforce its inherent value. In fact, this is exactly what is already happening. As the wage gap shrinks between India and the major outsourcing countries, IT giants are strategically positioning themselves so that future growth will come from experience and maturity rather than labor arbitrage. Diversification is the hallmark of this next generation business model. Wipro is actively moving into solar and other forms of renewable energy, <http://bit.ly/bBcGVz>. Infosys has pumped \$100 million into Europe to expand its software footprint all across the Continent, <http://bit.ly/ahPCbP>. At the same time, by expanding into Southeast Asia, Infosys will widen India's access to other emerging markets, <http://bit.ly/da929d>. No longer content to win new markets on the cheap, Infosys grows its Australian customer base through award-winning excellence as the IT consultant of choice, <http://bit.ly/ceXxjj>.

India may still remain a hub for IT services regardless of rising costs due to the sheer number of skilled workers and the fact that it has a high level of IT sophistication on which to build. As India diversifies, greater symmetries between the Indian and American economies will present themselves as both countries profit from maximizing what they do best. This is not a zero sum gain. On the contrary, everyone benefits from a more rational prevailing wage whose consistent application stabilizes global commercial relationships. Based on the comparative purchasing power in India relative to the United States and the large pool of low wage workers whose presence will remain a constant factor on the Indian scene for the foreseeable future, any discussion of the transnational prevailing wage and its impact must necessarily be both modest and evolutionary in its assessments. The changes that are coming may well take a long time in getting here. Nonetheless, given the dynamic nature of both the American and Indian economies, the inevitability of change is cannot be denied. It is on the way and both nations should use the time they have now to prepare for it. If that happens, an expanded H quota for Indian IT managers and professionals is a win-win formula for both countries.