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## Economic Impact of Foreign Labour

by Dr Heinz Salowsky, Cologne \*

**Over 2.3 mn foreign workers are now employed in the Federal Republic of Germany. They account for 10 p.c. of the total labour force. How many foreigners will work in the Federal Republic in future is necessarily a matter for conjecture. Labour market experts forecast that — depending on the rate at which the productive potential is used — between 2 and 2.8 mn foreign nationals will be constantly employed until 1985.**

**I**t cannot be said that the Federal Republic has currently too many foreign workers or is dependent on foreign labour. On the contrary, the microeconomically correct conduct of the German business firms and the advantages accruing to the foreign workers as individuals have so far had a positive result for the economy of the Federal Republic as a whole as well as the countries from which these workers hail. The positive effects of the employment of foreign workers have been especially evident in the labour market where it has greatly alleviated strains apparent in certain regional and sectional spheres in particular.

Although the total population of the Federal Republic rose in 1960–70 by 6.3 mn, or 11 p.c., to 61.6 mn, the number of gainfully employed persons, including foreign workers, increased by 0.9 mn only, i. e. 3.5 p.c., to about 27.2 mn. As a result, the ratio of working to total population has substantially declined — from 47.7 p.c. in 1961 to 44.2 p.c. in 1970. Without the foreign workers (for whom the ratio is 75 p.c.), counting German nationals only, the proportional figure would have been even smaller<sup>1</sup>.

### Repercussions on the Labour Market

The decline of the working population in relation to the total population is the outcome of a process of divergent changes with their root cause in the age distribution of the German population — the ratio of working-age (15 to 64 years) to total population fell from 67.2 p.c. in 1961 to 63.4 p.c. in 1970 — and longer attendance at school combined with the growing demand for further education courses and more demanding examination standards.

Other factors which have had, or will have, repercussions on the availability of indigenous labour are:

☐ the reduction of working hours which tends to lower the output per worker,

☐ the loss of an increasing number of older workers in connection with the lowering of the retirement age (optional retirement) which is advocated on social grounds and will decrease the working population,

☐ the slow growth of the total population: according to OECD calculations, it will until 1980 increase at an average of 0.4 p.c. annually — the lowest growth rate of any industrialised country in the western world.

In consequence, an increasing number of foreign workers will have to be drawn in in future if the best possible use is to be made of the productive plant potential available at the time.

### Industrial Sector as Beneficiary

The industrial sector is the beneficiary of the employment of foreign workers. The total labour force employed on the production of goods increased from 12.5 mn in 1960 to 13.2 mn in 1970. The number of foreign workers however escalated over the same period from 220,000 to 1.6 mn. It may therefore be assumed that the number of German workers employed in industry has declined substantially, as happened also in agriculture. Employment of foreign workers has enabled the secondary sector not only to offset the loss of nearly 1 mn German workers but even to expand, albeit slightly. In the industrial sector more than anywhere else the foreign workers

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<sup>1</sup> Heinz Salowsky, *Gesamtwirtschaftliche Aspekte der Ausländerbeschäftigung* (General Economic Aspects of the Employment of Foreign Labour), *Beiträge des Deutschen Industrie-Instituts* (Contributions of the Institute of German Industry), No. 10/11/1971.

have thus fulfilled an important compensatory and complementary function.

Recruitment of foreign workers however cannot halt the relatively fast contraction of German agriculture, the primary sector of the economy, because the change in its importance is attributable to causes other than shortage of labour. In the decade from 1960 to 1970 about 1.2 mn workers left German agriculture. Considering this magnitude, it is of no great consequence that the number of foreigners employed in German agriculture rose over the same period from 8,600 to 18,200.

The labour force of the tertiary sector, the service industries, increased between 1960 and 1970 by 1.4 mn, while the number of foreign workers employed in it rose at the same time from 51,000 to about 320,000. The growth in the demand for services was thus reflected in the main by increased calls for German personnel leaving the primary and secondary sectors. That, leaving the catering trade aside, relatively fewer foreigners are employed in the tertiary sector is due to the fact that some of the services, such as the civil service, are closed to foreign nationals. Lacking command of the German language, or merely faulty use of it, also almost rule out some spheres of employment, e.g. in insurance or banking or even in commerce, a fact for which the occupation distribution of the Austrians and Dutchmen in the Federal Republic provides inverse collaboration. With 77,300 and 56,500 these two nationalities make a significant contribution to the number of foreign workers; and they are prominent in commerce and other service fields in which a command of the German language is needed.

#### Contribution of Foreigners to Social Insurance

In the social insurance field the employment of foreign nationals has until now had positive effects. Owing to their favourable age distribution the foreign workers employed in the Federal Republic have so far made no significant demands

on the social insurance system. Their current contributions add up to a substantial sum while the amounts drawn by them in benefits are at present still relatively small. Bearing in mind that a further, if slower, increase in the employment of foreign labour is to be expected in the long term, the foreign workers in the Federal Republic will continue to pay through their contributions for the pensions to which their predecessors will be entitled. Besides, the more foreigners are employed in the coming years, the greater will be the total of contributions paid in by insured persons of foreign nationality and available for insurance benefits payable to German pensioners in the years of the "pensions bulge".

#### General Economic Effects

Effects of the employment of foreign nationals on the balance of payments are directly discernible on transfer account and in the balance of trade. The basic fact however remains that the positive or negative effect of the employment of foreign labour on current balance of payments items cannot be quantified with precision. In 1971 foreign workers transferred about DM 5.5 bn abroad, it is estimated by the German Bundesbank. The total sum transferred may actually have been much larger because quite substantial cash amounts were additionally taken or sent out on holidays and return journeys. To arrive at a correct assessment of all transfers by foreign workers, one must take into account that part of the sums thus transferred returns to the Federal Republic as payment for export orders. The employment of foreigners thus affects exports. Moreover, the foreign workers' acquaintance with German consumer and investment goods is likely to exercise a favourable influence on our export trade. There can be no doubt that without foreign workers German production would be smaller; exports would be lower, imports higher, and the balance of trade surplus correspondingly smaller.

It is not really possible to provide exact evidence of the consequences of the employment of foreign



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workers for economic growth. Apart from this, there is today a wide measure of agreement that the crucial factor for economic growth is not an increase in the total population or the potential labour force but technical progress – and this is, by and large, taking place no matter what happens in the labour market. In the context of the employment of foreigners considerable importance attaches however to the secondary demand for infrastructural facilities. In this respect the employment of foreigners has admittedly some negative aspects, for the assimilation of these foreign workers, their tendency to prolong their stay and their growing inclination to let their families join them, involve the host country in expenses, which the population as a whole has to bear, due to the need to modify and extend the infrastructure. It is difficult to attribute such infrastructure spending to the employment of foreign workers in particular because, on the one hand, investments due to it may take place years or even decades later and, on the other, a significant though not easily definable part of the additional infrastructure requirements arise from tasks which must be undertaken whatever the number of foreign nationals staying in the country. These negative effects are bound to increase as more foreigners come in.

### Effects upon Home Countries

Employment of foreigners is also "politically, socially and economically beneficial to their countries of origin". That at any rate is the view of the Coordinating Circle for Foreign Workers at the Federal Ministry of Labour and Social Order in which Federal Ministries, the organisations of employers and employees, welfare institutions entrusted with the care of foreign workers and other bodies are represented. To be fair, it must be conceded that the effects on the foreign workers' home countries are by no means always positive. The following however may be recorded as positive effects for all countries which have sent workers to the Federal Republic:

□ Alleviation of unemployment and consequent reduction of social assistance disbursements. Were the industrial countries to do without immigrants in future, the countries supplying them would be confronted by considerably graver unemployment problems, for their economic development is not keeping pace with their population growth. In Turkey, for instance, the third five-year plan – for 1973–77 – assumes that extra jobs will be wanted for about 425,000 people each year but no more than 210,000 a year, at the most, will be available inside the country. In the new

development plan for Spain it is similarly presumed that an additional 130,000 jobs will be created each year whereas a quarter of a million Spaniards will be wanting work. This means that Spain and Turkey, and the other recruitment countries also, will have to "export" guest workers for years to come.

□ Transfers by foreign workers are making a substantial contribution to the stabilisation of the balance of payments in all Mediterranean countries. The foreign exchange earnings of the tourist industry and the transfers from workers abroad cover the bulk of the balance of trade deficits which are chronic in all countries with a labour surplus. In Turkey savings by Turkish workers abroad probably make a greater contribution to the balance of payments than do the net proceeds from foreign aid. Although the importance of these transfers varies from country to country, they are manifestly of considerable value, together with the earnings from tourism, in connection with the economic development of these countries. Without the savings of the workers employed abroad it would be quite impossible to expand industrial production as projected, for instance, under the Turkish development plan.

□ The training which foreign workers receive abroad enables them to acquire knowledge and skills. Just as in times past emigrants carried their organisational and commercial attainments and also new production techniques with them to new continents and in this way transplanted trades and industries and spread new farming methods and a spirit of enterprise, so returning guest workers are now transferring technical know-how from one country to another and thereby speeding economic growth. Their home countries in this way acquire additional "human capital" without incurring the costs of training. Turkey in particular asked the industrial countries to bear development aid considerations in mind when arranging the work of their Turkish guest workers and to give them training the costs of training. Turkey in particular asked to serve later as instructors in projected Turkish enterprises. It is a moot point however whether all the workers will after their training go back to the countries from which they came. It has been suggested that of those who fail to make the grade many tend to go home while the successful ones are not disposed to go back. In Spain, Italy and Greece the progress of industrial development suggests that there is a connection between the return of emigrants and changes of the economic structure, especially in regard to occupational patterns, the employment of qualified workers in industrial production and the increase in the employment of females.

The home countries of the foreign workers may on balance suffer if the following negative effects predominate:

☐ Depopulation of sparsely populated regions (e. g. the Mezzogiorno in Italy, Andalusia in Spain, the Anatolian plateau in Turkey, Northern Greece), adverse changes in the age distribution with consequential negative effects on marriages and births, and a growing surplus of females over males. When the population density declines, establishment of a modern infrastructure becomes more costly, which in turn makes industrialisation more difficult. A vicious circle is thus set up: People leave because of lack of industrial employment, and industry does not move in because all or at least the most competent workers are leaving.

☐ If emigration continues, a structural manpower surplus will turn into a structural shortage of skilled labour. The selective effect of emigration shows itself in the transfusion of the most efficient workers from one national economy to another. This may cause the country supplying the workers to incur an even greater loss of productivity while the immigration country gains in productivity and thus offers even greater attractions to guest workers.

☐ Return movements for which no preparations have been made can cause social convulsions, for most of the workers returning from abroad want to do different work and earn better money than they did before they left home.

☐ The stimulating impulses from the return of guest workers will fail to become effective if the latter cannot be integrated, are left idle and eat up their savings instead of investing them. The conclusion reached in an OECD study of integration problems in certain regions of Greece, Italy, Spain and Turkey was that many of the returning workers do not engage in activities for which their training endows them but go back to traditional occupations, which is of no advantage to the economic development of their country. The reason for this is frequently that in the Mediterranean

countries in particular there is a marked tendency to seek "entrepreneurial" scope in certain parts of the tertiary sector, and this often induces returning guest workers to invest their savings in a small shop, taxi service or similar venture. These fields however are in any case crowded, and most of those entering them discover that their livelihood is extremely tenuous and unlikely to last long.

#### Transfer of Factories — an Alternative?

It must not be forgotten that workers returning from employment abroad may, by virtue of the views, attitudes and patterns of conduct which they have acquired abroad, exercise an influence in the political sphere. There has been evidence, especially in the recent past, of strong political involvement of foreign workers who were clearly critical of the political conditions in their home country. An assessment of advantages and disadvantages does not permit of uniform conclusions for all countries supplying guest workers. To Turkey, which utterly depends on emigration as a remedy for heavy unemployment, on the money transferred by the guest workers and on the training which they receive abroad, the situation appears in an entirely different light than to Italy. For most of these countries with a labour surplus however emigration is no final solution. Not only does the propensity to emigrate decline with growing industrialisation and rising standards of living, but these countries incline increasingly to the view that they would be better served by production being brought in than by labour, as hitherto, moving out.

The advocates of the transfer of production facilities lay special stress on the fact that labour-intensive production processes are bound to remain liable to cost pressure and labour scarcity. They argue that a change in the structure of production is imminent and that capital-intensive products are the strong suit of the Federal Republic. Simple and labour-intensive processes should for this reason be operated in countries in which adequate manpower resources are still available.

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