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Foreign Workers in Western Europe: A Major Economic Factor

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Foreign Workers in Western Europe: A Major Economic Factor

Central Intelligence Agency
National Foreign Assessment Center

August 1978

Summary

Nearly 8 million foreign workers remain in Western Europe. Following a net exodus of 1 million to 1.5 million, touched off by the 1974-75 recession, departures have now slowed to a trickle. Foreign workers now represent just under 9 percent of the West European labor force, and their number should stabilize slightly below the present level over the next few years.

Most foreign workers migrate from southern Europe, Turkey, and North Africa to the industrial centers of Northern Europe.* They are employed in almost all economic sectors but are recruited primarily to fill the unskilled, dirty, or menial jobs nationals often will not take. They are a primary source of labor in construction, metal processing, sanitation, domestic service, tourism, and food service. Historically they have functioned as a safety valve for the labor-importing countries, their numbers expanding and contracting in response to market conditions. In good times, their emigration also has relieved economic, social, and political pressures in the exporting countries.

By and large, the foreign workers still have not been integrated into the domestic labor forces or the social fabric of Northern Europe. Notwithstanding various programs intended to help the foreign worker and his family, social problems have been aggravated over the years by the arrival of more families and by the higher birth rate among foreigners. Most immigrants remain in social and cultural isolation in the poorest sections of large cities.

Recovery from the recession in the labor-importing countries—West Germany, France, the United Kingdom, Switzerland, Austria, Sweden, and the Benelux countries—has been disappointing. The modest economic growth

* For this paper Northern Europe consists of those countries in the European Community and Switzerland, Austria, Sweden, and Norway.

likely in Western Europe in the next few years will not reduce joblessness. Thus Northern governments will be under pressure to maintain existing restrictions on immigration and the employment of foreigners.

The net return from Northern Europe of hundreds of thousands of migrant workers since 1973 has aggravated economic and social problems in the labor-supplying countries. The return of workers, combined with a reduction in the amount of surplus labor normally accomplished by emigration, has swelled already high unemployment in Italy, Portugal, Spain, Turkey, and Yugoslavia. During the recession a marked reduction of worker remittances, a primary source of foreign exchange, contributed to record deficits for most labor-supplying countries. Remittances are now recovering, but they are unlikely to resume growth at prerecession rates at least for the next several years.

Foreign Workers in Western Europe: A Major Economic Factor

Nearly 8 million foreign workers remain in Northern Europe despite the persistence of abnormally high unemployment since the 1974-75 recession. Foreign workers constitute just under 9 percent of the labor force of the area, down a percentage point or two from the prerecession high. Migrants make up 12 percent of the work force in Switzerland, 9.5 percent in West Germany, 7 percent in France, and 6 percent in Austria. They account for a much larger percentage of unskilled workers and are especially important in certain industries—for example, automobile manufacturing and other metal processing, sanitation, food service, and tourism. In construction and domestic service, they are the main source of labor.

Foreign workers, primarily from less prosperous countries to the south, have played an important role in the economies of Northern Europe since the 1950s. These people—the so-called guest workers—in large measure satisfied burgeoning demand for unskilled labor in the advanced economies. The savings they sent home boosted personal incomes and provided the labor-exporting countries with much-needed foreign exchange.

The guest workers have functioned as a safety valve for the Northern economies, their numbers expanding and contracting in response to market conditions. In expansionary periods, the lure of high wages has attracted an influx of migrants. In times of recession, lack of work and tighter immigration controls have caused a sizable net flow of labor back to the countries of origin. After an outflow of workers during the 1966-67 recession, the movement of foreign workers to the north resumed and exceeded previous levels. The 1974-75 recession triggered another exodus. A net of from 1 million to 1.5 million foreign workers returned to their homelands between 1973 and 1976, including 500,000 from West Germany and 300,000 from Switzerland (see the table). The cyclical flows of guest workers have no precise counterpart in the United States and partially explain why unemployment rates do not rise as much in Western Europe as in the United States when production drops.

Most of Northern Europe's foreign workers come from Italy, Portugal, Spain, Greece, Turkey, and Yugoslavia. North Africa—Algeria, Morocco, and Tunisia—is also an important source of labor, especially for France. A major exception to the pattern is the United Kingdom, where more than 80 percent of the foreign labor comes from Ireland and English-speaking countries in the Commonwealth. West Germany, France, Switzerland, and Austria employ the most southerners, but large numbers also work in the Benelux and Scandinavian countries.

Social Problems

On the Continent, foreign workers generally have not been integrated into the domestic labor forces or the social fabric. Host countries have

Selected Labor-Importing Countries: Foreign Workers [1]

Thousand Persons

	West Germany	Switzerland [2]	Austria	Sweden
1973 ..	2,479	621	226	222
1974 ..	2,397	551	218	235
1975 ..	2,212	425	185	251
1976 ..	2,034	342	174	267
1977 ..	1,975	320	189	N.A.

[1] Complete and uniform statistics on foreign workers in Western Europe are not available. Some countries do not report data on foreign workers and those which do use different methods of classifying them. For example, some countries include seasonal workers in their reporting, while others do not. Data are also inadequate on daily international commuters, Common Market migrants who cross member state borders freely, illegal immigration, and those who enter a country as visitors but stay to take temporary employment. France probably hosted 1.5 million to 1.9 million foreign workers throughout the period dispite some decline after 1974.

[2] Excluding aliens with residence permits.

traditionally regarded them as transients. Requirements for work permits tie workers to certain jobs. Other restrictions on job mobility, requirements to renew work and residence permits periodically, and in some cases rules inhibiting the reunion of families have discouraged permanent settlement. Finally, discrimination and prejudice, present in varying degrees in all the labor-importing countries, discourage integration and make social adjustments difficult. Latent resentment against the guest worker becomes open mainly in times of recession or unemployment.

The foreign workers themselves tend to resist assimilation into their host societies. The typical foreign worker, who is likely to be young, male, and single or at least traveling alone, plans to return to his homeland in just a few years after profiting from experience, skills, and wages picked up abroad. (In reality, many remain year after year.) He has little interest in pursuing lengthy language or even vocational training. He associates almost exclusively with his own countrymen and remains uninvolved in union or political activities.

Most guest workers have been recruited to fill jobs vacated by indigenous workers moving up the economic ladder. Their own prospects for advancement are very limited. Vocational training is inadequate in most cases, although some firms with government support—particularly in West Germany and Switzerland—offer high quality courses in industrial mechanics. Language instruction, except in Sweden or in France where government paid instructors are readily available, is even more haphazard and is often left to the foreign workers' own initiative. Only one-fifth of the foreigners in West Germany speak acceptable German; an estimated 15 percent of the men are able to write German.

As for housing, most employers are, at least initially, required by law to provide adequate accommodations or show that such are available. Nevertheless, the foreign workers—motivated by desire to save as much money as possible, associate with their own countrymen and live near their places of work—tend to form ethnic enclaves in the poorest neighborhoods. Single guest workers are frequently put up in publicly financed hostels, especially in France and West Germany. In the private housing market, foreigners often encounter discrimination and find themselves living in substandard conditions.

The educational needs of those guest workers who bring their families to continental countries pose especially serious social problems. The educational facilities in the areas where most foreign workers live tend to be overcrowded or inadequate to begin with. Given the strong allegiance of Mediterranean peoples to their cultural heritage, many refuse to avail themselves of the educational and other programs offered by host governments. Immigrant children who are enrolled in a local educational system struggle with the new language and culture. Many fall behind their age groups or drop out. In West Germany, more than 60 percent of immigrant children leave school before earning completion certificates or diplomas.

As the guest worker phenomenon has persisted, the gradual arrival of more families and the relatively high birth rate among migrant worker families are making educational, housing, and other social problems more acute. Dependents now account for one-third to more than one-half of foreigners in the various host countries. Belgium has almost as many foreign children as foreign workers. In West Germany 20 percent of all births were to foreigners in 1976; 600,000 foreign births have been recorded since 1970. Many immigrant children now are old enough to work. West Germany alone has 210,000 immigrant children between the ages of 15 and 20 and almost as many aged 10 to 15. Job seekers in this subgroup are finding the double disadvantage of being young and foreign an almost insurmountable obstacle. Moreover, family members who have recently entered West Germany or France are prohibited from taking work. Many work illegally.

The number of illegal residents in the European Community (EC), Austria, and Switzerland is estimated at about 1 million. The number is growing as host countries respond to labor market slack by trying to decrease the number of foreign workers by making registration more difficult. Most illegals are persons who are unable for various reasons to get work permits or renew old ones. Some came in as visitors, students, or dependents and remained to work without permits. Still others initially entered their host countries illegally. Smuggling organizations operate in all the major labor-importing countries, extracting large fees from aliens for helping them evade immigration restrictions. The illegal resident lives an underground existence, hiding from the authorities and often working for lower wages and without any kind of government-provided social benefits. Laws and penalties on illegals vary from country to country. Officials of the European Community are working on plans aimed at tightening and coordinating legislation in member states on illegal immigration.

Impact of Foreign Workers on Labor Cost

The availability of large numbers of foreign workers probably has slowed wage increases in Northern Europe, particularly increases in the wages of unskilled and semiskilled workers. Without immigration, employers undoubtedly would have to pay more to attract nationals to jobs where immigrants are paid the statutory or customary minimum wage and illegals often work for less.

Similarly, the employment of foreign workers probably has slowed the growth of labor productivity, or output per worker. It reduces the capital to labor ratio and fosters the continuation of relatively labor-intensive modes of production. While immigrants are considered hard workers, the same factors that hold down their earnings—their sheer numbers, limited education, lack of job skills, and language problems, as well as discrimination—hold down their productivity.

Declining Demand for Foreign Labor

Western Europe's recovery from the 1974-75 recession has been sluggish. Unemployment rates remain high almost everywhere, and in most countries continue to creep up. Real GNP growth in the next few years will be inadequate to lower overall joblessness appreciably. Not surprisingly, immigrant labor has been a target of far-reaching restrictions aimed at protecting indigenous workers:

- West Germany, France, Belgium, Denmark, and Luxembourg have banned recruitment of labor from outside the EC.
- West Germany and France have stiffened penalties for smuggling in or hiring illegal immigrants.
- West Germany has prohibited non-EC migrants from moving to areas where such people already make up more than 12 percent of the population.
- Switzerland has directed that nationals be given preference in filling job vacancies and that foreign workers be the first to be laid off.
- The Netherlands has put a ceiling on immigration of non-EC workers and the number each firm may hire.
- Switzerland has placed a limit on the total immigrant population and has reduced the number of work permits issued annually even though it enjoys an exceptionally low unemployment rate.

Legal impediments to the recruitment of foreign workers, combined with the impact of recession on construction and other industries that offer the largest number of job opportunities for migrants, have sharply reduced demand for foreign labor. Unemployment among foreign wokers rose much faster than the jobless rates for nationals in 1974-75 despite a swing to net emigration. Foreign workers are the first to be fired not only because of their concentration in highly cyclical industries but also because of their position at the bottom of the skill and seniority ladder and outright discrimination. Unemployment among guest workers has receded some but remains above prerecession levels and much higher than the rates for nationals in France, the Netherlands, and Sweden. In West Germany, Switzerland, and Austria, unemployment rates for foreigners have come down near the levels for nationals.

The mass exodus of guest workers induced by the 1974-75 recession is over. Departures slowed to a trickle in 1977. In West Germany the number of guest workers was down only about 60,000 in 1977—less than one-third of the reduction in each of the previous two years. The average number of foreign workers in Switzerland declined by only about 20,000 after plummeting an average of about 95,000 each year from 1973 to 1976. The number of foreign workers in Austria actually increased last year.

France, like most of the labor importers, has watched the outflow of a portion of its foreign work force with mixed emotions. The departure of the foreign workers relieves unemployment, but the availability of low-cost foreign labor is very important to the French economy. Foreigners make up some 20 percent of the manual work force and are especially important in the petrochemical, automobile, and construction industries. On French construction sites, 40 to 80 percent of the workers are usually North African, Spanish, or Portuguese. Some Renault assembly lines are almost exclusively manned by guest workers. French business leaders have expressed fear that prices would jump should many of the immigrants working at the minimum wage depart. Although Paris banned new recruitment of labor from outside the EC in 1974, it aimed at retaining the bulk of the foreign work force already in France.

From a high of 1.9 million in 1974-75, the number of foreign workers in France probably has declined by several hundred thousand due to the recruitment ban and the recession. The persistence of high unemployment, with foreigners constituting 10 percent of the jobless, has prompted Paris to place a temporary ban on new work permits for non-EC foreigners already in France and on the immigration of dependents. Furthermore, non-EC immigrant workers have been offered $2,000 bonuses and one-way air tickets to return to their homelands. These measures—already softened by exempting the largest national group, the Portuguese—are aimed primarily at the 100,000 jobless foreigners.

Integration Policies in Northern Europe

Programs to integrate the guest workers vary widely from country to country, and results have been uneven at best. The meager funding typically allocated such efforts is indicative of their limited scope. Most programs focus on providing information and counseling on jobs, housing, and schools. West Germany has set up day care centers, youth clubs, and special schools for immigrant children in urban areas where foreigners are concentrated. Bonn is also allocating about $12 million annually to subsidize private services for immigrants such as language and vocational training, legal aid, and social assistance. Paris has allocated funds for expanded language and vocational training and passed legislation aimed at easing discrimination against foreigners at work and in union activities.

Sweden's efforts to integrate foreign workers into the host economy and culture have been the most far reaching. Foreign workers are entitled to permanent residence permits after only one year. They traditionally have been extended the same social rights and benefits as nationals, including educational and medical benefits. In 1976 Sweden became the first country to grant all foreigners the right to vote as well as the right to run for local and regional office. In the United Kingdom, resident citizens of independent Commonwealth countries are British subjects and enjoy full political and civil rights. London tightened controls on immigration in 1962 and 1968 but still permits free entry of immigrants from colonies and Commonwealth countries that have specified links to the United Kingdom.

The EC established free movement of labor in 1968. Nationals of EC countries are entitled to equal treatment by employers anywhere in the Community and to preference over non-EC workers in hiring. The EC Commission has recommended a program to extend equal treatment to non-EC workers and to expand and standardize the assistance to all foreign workers. Community financing is available from the European Social Fund for member country projects on behalf of migrant workers; some $24 million will be provided this year. The principle of free movement of labor now is a major stumbling block in consideration of Community membership for Greece, Spain, and Portugal. With unemployment already a serious and persistent problem in the Nine, accession of these countries is likely to be tied to restrictions on the movement of their workers.

Few political parties in Northern Europe have been inclined to exploit the guest worker problem as a political issue. [redacted]

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Foreign workers, for their part, generally have shunned political involvement. They often are unaware of their rights and reluctant to complain for fear of triggering further restrictions. Unemployed guest workers have staged scattered small demonstrations, but for the most part, host governments have not been faced with serious protests.

Labor unions, while fearful of large-scale immigration, generally favor equal treatment for foreign workers already in place, especially equal pay. They no doubt reason that a wage differential would give foreign job applicants an edge and depress the wages of nationals. Union membership is relatively low among foreign workers, and those foreigners who are in unions usually are underrepresented in the higher echelons. As a result, the unions have tended to defend immigrants' interests only where they coincided with interests of indigenous workers.

The governments of some labor-exporting countries have intervened directly with host country governments on behalf of their expatriates. President Tito has repeatedly asked for more social security benefits and job security for Yugoslavs working in Northern Europe and for resettlement aid to those returning home. Several Arab states are pressing the North European governments to grant more apprenticeships to teenage dependents of foreign workers. Rome wants to establish a standard work contract for its citizens abroad to stem what it regards as exploitation. Portugal pressed for and won more liberal social security provisions and a nondiscrimination clause for its workers in the EC. Turkey has been particularly aggressive in pursuing benefits for its workers abroad. Ankara's Ministry of Labor has some 200 permanent representatives abroad serving the interests of Turkish workers and has sent special emissaries to negotiate expanded social benefits for Turks. Notwithstanding Ankara's efforts, the EC has resisted moving toward free entry for Turkish workers by 1985 as provided in Turkey's association treaty with the EC.

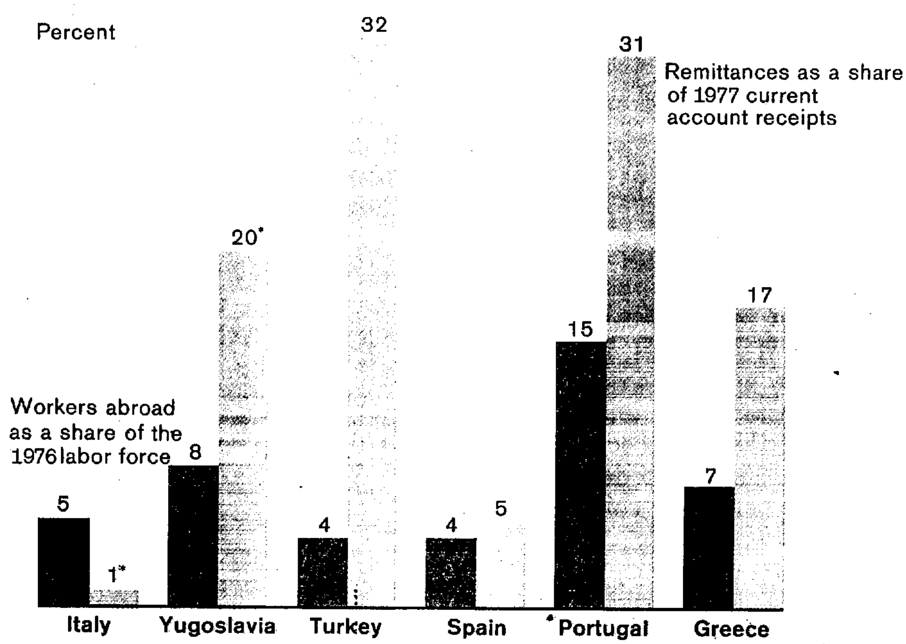
Economic Implications for Labor Supplying Countries

Emigration has traditionally siphoned off the surplus manpower of the southern countries, easing strains on domestic labor markets and keeping unemployment down. The net return of hundreds of thousands of migrant workers over the past few years, most without significantly increased skills, has exacerbated already severe unemployment problems in these countries. Portugal's problems were compounded by the massive inflow of repatriates from Angola and Mozambique. Unemployment has skyrocketed in Portugal to 12 to 15 percent, compared with 2 to 3 percent in the early 1970s. About 250,000 Yugoslavs have returned home since 1973, and they are the principal factor in the rise of unemployment in their homeland. Unemployment is also high and rising in Italy, Spain, and Turkey. The impact of growing joblessness on incomes is particularly acute in Turkey, which has no formal unemployment compensation scheme to assist either laid-off domestic workers or those returning from abroad. Greece, Italy, Portugal, Spain, and Yugoslavia provide benefits to workers laid off at home, but only in Italy do workers returning from abroad qualify for assistance.

Workers abroad still represent a sizable proportion of the labor forces of the south European countries (see the figure). They account for 15 percent of the Portuguese labor force and 8 percent of the Yugoslav. The corresponding shares for Greece, Italy, Spain, and Turkey range from 4 to 7 percent.

Worker remittances to most labor-supplying countries, after years of steady growth, suffered

Importance of Foreign Workers to Labor-Exporting Countries



*Data are for 1976.

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a marked reduction with the recession. The decline in remittances coincided with widening trade deficits, caused in large part by the soaring cost of imported oil. The result has been substantial current account deficits in most south European countries. The largest drop was in Turkish worker remittances, which had kept Turkey's current account balance in the black in the early 1970s; they fell by 30 percent in 1975-76 contributing to a major payments crisis. Worker remittances continued to increase only in Yugoslavia but not enough to permit Belgrade to avoid record deficits.

In dollar terms, worker remittances are recovering smartly in most labor-supplying countries, thanks to rising wages and exchange rate movements. They represent about one-third of current account receipts for Turkey and Portugal, about 20 percent for Yugoslavia, and 17 percent for Greece. Not all of the savings of foreign workers are remitted home. Turkish workers, for example, hold some 5 billion deutsche marks in German banks. All the major labor-supplying countries are adopting measures to attract more of their workers' savings from abroad.

Policies on Workers Returning to Labor-Supplying Countries

The governments of southern Europe, Turkey, and North Africa are concerned about the return of large numbers of emigrant workers and are taking steps to ease their difficulties.

- The Greek employment service has established offices at the border and in West Germany, Belgium, and the Netherlands to help returnees find jobs.
- Italy pays returning workers unemployment benefits and other allowances and gives them priority for publicly financed housing.
- Portugal has established a ministry-level institute to coordinate services for returning nationals. Given Portugal's unemployment problem, however, the institute is working hard to encourage those abroad to stay there and to stimulate new emigration.
- Turkey has concluded an agreement with West Germany that coordinates training for Turkish migrants before and after their return on the basis of Turkey's skill needs. Ankara is also looking for new markets for its surplus labor. Libya has taken 10,000 Turkish workers and holds out the prospect of taking more; substantial job opportunities have also opened up in Saudia Arabia and Kuwait.

Outlook—The North

The number of foreign workers in Western Europe should stabilize over the next few years at slightly below the current level of nearly 8 million. Further small reductions in the foreign work forces of West Germany, Switzerland, Austria, and possibly Norway and the United Kingdom are expected. Only moderate economic growth is forecast for Western Europe, coupled with a faster rise in the working-age population. Hence labor markets will remain soft. Northern governments will want to retain existing administrative measures aimed at discouraging new inflows of labor, but pressure to expand the EC is working in the opposite direction.

Over the longer term, from 1985 onward, growth of the working population in Western Europe will fall off sharply. Expanding demand for foreign labor is possible, although higher energy prices are likely to hold down economic growth. Demand for foreigners will be especially weak if the long-term trend toward elimination of socially undesirable, unskilled jobs at the bottom of the labor ladder continues.

Most host country governments probably will step up efforts to assimilate the foreign worker and his family, recognizing that their presence is not a temporary phenomenon. Measures on special education, legal and housing aid, wider dissemination of information on available programs and benefits, and coordination of national and local agencies' efforts on behalf of migrants will become more effective as the total number of foreign workers stabilizes. Natural integrating factors—lengthening of the time that some foreigners have been present, occurrence of more mixed marriages and naturalizations, entry of more families, and the maturing of children born to immigrants in the host countries—will have an even greater integrating impact.

Turnover among foreign workers, however, will work against these factors, keeping most immigrants in social and cultural isolation in the poorest sections of Northern Europe's large cities. In the main, foreigners will continue to hold the most socially undesirable jobs at the lowest pay with the least security. Host governments are unlikely to extend the vote to guest workers in the near future or ease naturalization requirements. Undercurrents of prejudice and discrimination are always present. Other factors that would work against assimilation are the swing toward immigration from increasingly distant, more socially and ethnically different places such as Pakistan, South Korea, and Africa south of the Sahara, and an expected increase in illegals.

Prospects in the South

The economic outlook for most of the labor-supplying countries is bleak—a continuation of slow growth, unemployment, inflation, and lackluster investment. Italy and Spain are likely to experience continued slow growth of production over the next few years, and Portugal will have persistently high unemployment even if output expands considerably. Turkey is forecasting zero or even negative GNP growth in 1978; unemployment will remain high there as well. Greece alone has been able to sustain a high rate of economic growth and low unemployment in the last few years and should continue to perform rather well.

Worker remittances are recovering in most major labor-supplying countries and have already exceeded 1973 levels in Yugoslavia, Portugal, and Greece. Nevertheless, remittances are unlikely to grow at prerecession rates at least for the next several years.

The return of workers from abroad, combined with a reduction in the amount of surplus labor normally siphoned off through migration, has raised the number of available workers in labor supplying countries by 3 to 4 percentage points. Except in Portugal—where unemployment seems to have stabilized at around 12 to 15 percent of the labor force—and Greece, jobless rates are rising from already high levels ranging from 5.6 percent in Yugoslavia to perhaps 15 percent in Turkey. Even so, most governments probably will not feel compelled to take major new steps tailored to the needs of returning workers as long as they continue to shun political activism.

In the long run, the process of industrialization in the labor supplying countries will be a crucial factor in determining the future of labor migration. The rate of population increase is higher in the southern countries, suggesting that an excess supply of labor will be available for many years. Southern Europe can absorb this excess only by expanding its industrial plant. Capital investment from the North has assisted this process and can continue to do so. As labor markets continue slack almost everywhere in coming years, Northern governments may well decide that developmental aid to the labor-supplying countries is the key to relieving the social and political pressures generated in the North by labor migration.

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