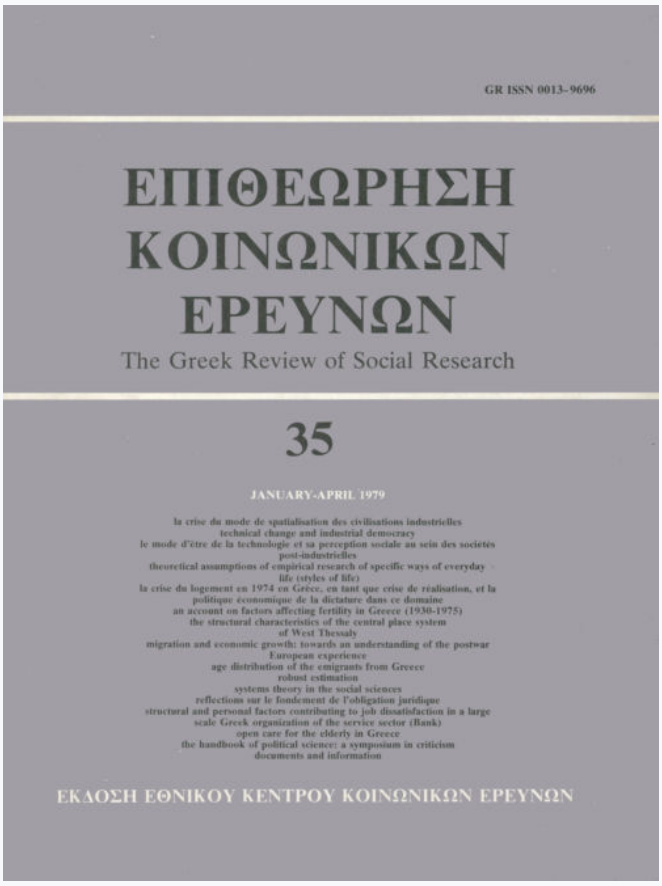
The Greek Review of Social Research

Vol 35 (1979)

35



Migration and economic growth: Towards an understanding of the postwar European experience

Yannis M. Ioannides

doi: 10.12681/grsr.166

To cite this article:

Ioannides, Y. M. (1979). Migration and economic growth: Towards an understanding of the postwar European experience. *The Greek Review of Social Research*, *35*, 128–131. https://doi.org/10.12681/grsr.166

migration and economic growth: towards an understanding of the postwar European experience

by
Yannis M. Ioannides

Assistant Professor of Economics, Brown University, Providence, Rhode Island

Presented at the AEA Meetings, Atlantic City, September, 1976, Session on Growth.

The author would like to acknowledge financial assistance from the International Institute of Management, Berlin Science Center. Thanks go to Michael Caramanis and Anna Hardman for ideas, encouragement, and suggestions and to Bill Behn, Philippe DeVille, and Melvyn Krauss for comments.

In the post-World War II period the European countries have experienced rapid economic growth under a variety of socioeconomic systems. That growth was associated with an enormous expansion of trade and foreign investment, and with considerable spatial redistribution of the population. For instance, in 1974 Greek migrant workers were more than 10% of the Greek labor force, and foreign workers made up more than one-fourth of the Swiss labor force and more than ten per cent of both the West German and French labor force. By 1970, in Western Europe alone the total number of migrant workers exceeded six million (Böhning). As it is well known, the benefits from that phenomenal growth experience accrued unevenly over nations and regions. The immigration of labor from developing to developed European countries has received a considerable amount of attention by social scientists. Yet, the recent European experience has been somewhat neglected by economists and its long-run impact on the labor-exporting countries has been left largely unexplored. Most mainstream writing and research on international migration attempts to explain it as «factor movements in response to earnings differentials». A widely quoted application of this thesis in the European South-to-North migration, Kindleberger's *Europe's Postwar Growth,* concludes that migration has benefited both labor-exporting and labor-recipient countries. It is argued that a high elasticity of migrant labor supply in the sending countries and a low elasticity in the receiving countries allow immigration in the labor-receiving countries to keep wages low (which, then, make high profits and sustained accumulation possible). It is argued further that labor earnings in the sending countries are not affected and as immigrant remittances help transform «surplus» labor into savings both parts stand to gain.

This view is considered too simplistic and essentially inadequate. And although the literature contains a variety of refined models it is argued here that the long-run impact of migration on the labor-exporting countries is not well understood for reasons some of which may be stated as follows: First, rigorous structural analyses of European migration have not been performed; second, the impact of migration in exacerbating structural imbalances is not well explored; third, for most of the countries involved, its impact on the balance of payments is not clear; fourth, the overall balance sheet of who gained and who lost from this process has not been drawn; and, fifth, how migration fits into the relation between capital accumulation and international division of labor is not sufficiently appreciated. This essay offers neither a new model, nor a different approach, nor a comprehensive survey of the literature. The intention here is simply to draw attention to some of the above issues by discussing awkward points in existing knowledge and by suggesting directions for future research.

I. some observations on European migration

International migration is not a new phenomenon. The development of North and South America owes much to immigration from Europe and Africa, England received immigrants from Ireland, and a considerable redistribution of population took place in the Balkans. But the recent European experience relates migration to growth more starkly than ever before.

As it has been emphasized by Castles and Kosack, and by Power and Hardman the labor-receiving countries are interested in importing labor services rather than workers. This is sometimes referred to as temporariness of migration and is crucial to the distribution of benefits and costs among the countries involved. The receiving countries have assumed only a small part of the social cost of labor. Paine cites impressive evidence for the temporariness of migration.

For instance, between 1959 and 1968, the proportion of Italian repatriation to emigration was about 75 per cent in the average, while for Switzerland, the number of departures of guest workers per 100 new arrivals during 1960 to 1969 ranged from 52.9 per cent in 1961 to a high of 100.4 per cent in 1965. Paine also analyzes the background of the use of temporarily recruited labor on fixed-period employment contracts.

Other researchers, like Bullinger and Schiller, have emphasized the role of immigrant labor as a tool for economic stabilization and almost all researchers who have studied the subject point out the aggressive and highly selective recruiting which was carried out under official auspices of intergovernmental organizations. Schiller offers a good review of the use of immigration as a stabilization device and Bullinger reports on a study of foreign labor and the business cycle in the Federal Republic of Germany. This is interesting not just because controlling immigration is an interesting tool for manipulating the labor supply, but also because of the importance of stabilization in capitalist growth.

Among the few descriptive accounts of the impact of migration on the sending country we have, Paine's quite extensive description of the case of Turkey stands out. Therefore, some of her arguments are summarized here. Skilled industrial workers were found to be over-represented among the migrants and more likely to settle abroad permanently. Serious shortages did not develop until 1972. No evidence was found, except in isolated instances, about whether or not loss of skilled workers has raised wages, discouraged training and encouraged utilization of more capital intensive techniques—except in isolated instances. Savings and remittances out of earnings abroad have been mainly utilized not for agricultural or industrial investment but for consumption expenditures. However, repatriated earnings do not seem to have had much inflationary impact, and the proportion spent on imports afterwards has probably been low. Business established by returnees were few and mainly in the service sector. Few returnees have learned skills abroad and those who have not used them upon return. Little evidence was found that labor organization has had an adverse impact on the pattern of trade. Overall, emigration has not provided substantial capital for domestic capital formation and has tended to reduce the supply of trained manpower for new industrial projects. Finally, since the poorest among the population have not shared in the benefits from emigration income distribution has not improved.

II. migration, economic growth, and social welfare

The theoretical literature on the welfare aspects of migration is still far from satisfactory. Some important considerations such as substitutability between different kinds of labor and between capital and labor and differential propensity to save among emigrants and those left behind have been taken into account. Yet, the framework which is usually employed by, e.g., Grubel and Scott, Berry and Soligo is the usual static welfare analysis. Thus, it cannot handle adequately such trade-offs as those between long-run growth fueled by migrant worker remittances and the welfare of those left behind. In addition, the welfare aspects of the use of migration as a deliberate policy tool—as, in fact, has been suspected by writers in economics and politics of migration —may easily be determined in an optimal economic growth model. Specifically, under what conditions could a country sustain in the long-run a policy of being a net lender of labor; who gain, and who lose in such a situation; what role do differential savings rates and the terms of trade play; these are questions which might be best investigated by such a model. A good example is the recent pioneering study by Caramanis. Caramanis develops a two-sector, two-good, open economy optimal control model which incorporates migration relationships in the planning process for human and natural resources. The parameters of the model are calibrated with data pertaining to the Indian state of Gujarat and the numerical solution for a ten-year period offers valuable insights into the growth process.

For an evaluation of the effects of migration on labor exporting countries an essentially macroeconomic investigation (like the one proposed above) would need to be complemented by a microeconomic study of the structure of migration. Such a study would provide a concise description of migration as an individual investment decision. Second, it would provide clues to the relationship of migration to inequality and to social mobility. That is, to the extent that the migration decision may be viewed as a decision under uncertainty, as David demonstrated, the dispersion of earnings within each of the different spatially separated labor markets also enters.

It is natural to think of migration as an investment in the context of the human capital approach as employed by Bowles (1970) and others. Not withstanding the critique of human capital theory by Bowles and Gintis (1975) this approach would allow the analysis of the transfer of value which might be underlying this lending of labor. Such a focus would not make the individuals decision the central point, nor would it underrate the importance of the organized nature of migration. It is, simply one of the few empirical handles we have to study the welfare and growth aspects of labor movements.

The reliability and scope of the data published by European governments is poor. This has hampered vigorous analytic work. (Ironically, it appears as if migration has been treated by most European governments as such a temporary phenomenon which would not necessitate collection of good data.) There is however enough cross-section data on income, education, age, training, and prior employment status to satisfy the requirements of the human capital approach.

III. migration and social structure

Economic analysis is central to any migration study. Unquestionably, major spatial redistributions of the population have substantial impact on the social structure; these too should not be neglected.

For the postwar European case such considerations at the international level are required, which would inevitably bring in political considerations. Castles and Kosack in their study, *Immigrant Workers and Class Structure in Western Europe,* argue that:

«International labor migration is part of the global relationship between the developed and the underdeveloped countries. It corresponds with the interests of the ruling classes of both. For the former, migration provides an industrial reserve army which helps retard wage increases and keeps profits high. In addition, immigration is politically advantageous to the employers, through its effect in weakening the labor movement and dividing the working class. For the latter, it alleviates unemployment and removes discontented elements who might otherwise attack the reactionary system which keeps the country in a state of underdevelopment.» (Castles and Kosack, p. 428).

Such a strong political view may be contrasted with liberal critiques of migration which typically evolve around the relative magnitudes of economic variables descriptive of the situation. That is, liberals would probably restrict themselves to questions like: How does labor migration actually affect the balance of payments when a constant flow of returnees demand consumption goods to satisfy newly acquired consumption habits? Or, does country's ability to purchase imports distort the pattern of domestic investment in import substitution and export promotion?

Instead of assuming a perfectly functioning alliance of dominant classes thriving on cooperative schemes—as it is, in fact, implicit in the above quote—we might consider using existing evidence to identify the *modus operandi* of such schemes. E.g., to pose the question in an inverse fashion and to ask about characteristics of a «dominant» class that would benefit from labor outflow. Since most of the labor-exporting countries, such as Greece, have not had a feudal past proper, the specificity of their socioeconomic formation would make up for enough variability to complete such case studies.

The argument is not that received theory would totally fail to explain labor movements like the ones which were experienced in postwar Europe. We are arguing that such explanations may be inadequate in that not only they would treat the role of capital in an historical fashion but they would fail to capture the significance of the labor force restructuring that is taking place with migration. Furthermore, even if the neoclassical hypothesis is not refuted, it is quite plausible that migration may shift a labor-exporting economy into an entirely different growth path. Such a path may not be optimal from society's point of view, although it may be preferred by a (section of the) capitalist class, or, imposed upon by outside interests, or even be of mutual advantage to a domestic and foreign capitalist class. If rapid capitalist development by indigenous capitalists is feasible, and provided that such a class is politically «sovereign», I would expect the advantage of a cheap labor pool to be exploited. This may not materialize, however, in several situations. I could name a few such possibilities: resource endowments are such they may favor «lending labor» as a means of capital accumulation; strong domestic interests in large market for imports of consumption goods; or, suboptimal domestic saving and investment behavior. Therefore, it is only too natural that interplay of interests between dominant classes in both labor-sending and labor-receiving countries would be at the center of massive labor force restructuring.

This, however, does not explain the actual mechanism by which this restructuring is brought about. But, that the power of labor has been vigorously curtailed is, of course, undoubtable. For instance, as it has been argued by Nicolinakos (1973; 1975), the availability of immigrant labor has provided a convenient way to stratify the labor force and to maintain exploitation—since the latter is facilitated when workers are less familiar with the environment. Overall, however, this is sharply modified by the character of existing economic relations between advanced and less developed countries. Countries like West Germany have so far pursued aggressive expansionary policies—recognizing no labor supply constraints.

IV. conclusions

In sum, the theoretical and empirical investigations which were proposed here would facilitate our understanding of growth and structural aspects of migration. In addition such investigations would also elucidate the nature of peripheral dominant classes—especially, in view of the contradictions which European economic integration exhibits—and it would also provide input to policy-making about regional disparities, in the context of such an integration.

The radical Marxist argument maintains that rapid accumulation requires, in addition to development of markets, labor market segmentation. If the radical argument is correct and to the extent that migration has served to segment the European working class, we should expect as a result a worsening of the distribution of income at both ends—the host country and the labor-exporting country. We would argue that however clear—but not necessarily correct —the radical argument might be in the case of the host country it appears that so far it has not been completely developed for the impact of migration on the labor-exporting country. However, the mass migration process in post-World War II Europe might be interpreted—exploitation of a pool of cheap labor, an insurance device for the domestic labor force, or a flexible stabilization device—it is as significant to European advanced capitalism as the Enclosures were for the emergence of British capitalism. But, is it not, at the same time, shaping patterns for future growth of the lesser developed countries in Southern Europe and Northern Africa?

REFERENCES

R.A. Berry, «Some Welfare Aspects of International Migration», *Journal of Political Economy,* 1970, 778-794.

W.R. Böhning, *Mediterranean Workers in Western Europe: Effects on Home Countries and Countries of Employment,* Geneva, 1975, International Labor Office.

S. Bowles, «Migration as Investment: Empirical Tests of the Human Investment Approach to Geographical Mobility», *Review of Economics and Statistics,* Vol. LII, No. 4, November, 1970, 356-362.

S. Bowles and H. Gintis, «The Problem with Human Capital Theory—A Marxian Critique», *American Economic Review, Papers and Proceedings,* Vol. LXV, No. 2, May, 1975, 74-82.

S. Bullinger, et al., *Ausländerbeschäftigung, Arbeitsmarkt, und Konjunkturverlauf in der Bundesrepublik Deutschland,* Tübingen, 1974, Institut für Angewandte Wirtschaftsforschung.

M. Caramanis, *Migration, Economic Growth and National Planning,* Ph. D. Dissertation, Harvard University, 1976.

S. Castles, G. Kosack, *Immigrant Workers and Class Structure in Western Europe,* London: Oxford University Press, 1973.

P.A. David, «Fortune, Risk, and the Microeconomics of Migration», in P.A. David and M. Reder (eds.), *Nations and Households in Economic Growth,* New York: Academic Press, 1974, 21-88.

H.B. Grubel, A.D. Scott, «The International Flow of Human Capital», *American Economic Review,* May, 1966, V. 56, pp. 268-283.

C. Kindleberger, *Europe's Postwar Growth,* Cambridge, Massachusetts: Harvard University Press, 1967.

M. Nicolinakos, *Politische Ökonomie der Gastarbeiterfrage: Migration und Kapitalismus,* Reinbek bei Hamburg: Rowohlt Taschenbuch, 1973.

M. Nicolinakos, *The New Dimensions in the Employment of Foreign Workers,* Berlin: International Institute for Comparative Social Studies, April, 1975 (mimeo).

S. Paine, *Exporting Workers: The Turkish Case,* London: Cambridge University Press, 1974, Department of Applied Economics, Occasional Paper 41.

J. Power and A. Hardman, *Western Europe's Migrant Workers,* London: Minority Rights Group Report, 1976.

G. Schiller, «Channelling Migration: A Review of Policy with Special Reference to the Federal Republic of Germany», *International Labor Review,* Vol. III. 1975, 335-355.