

Foreign Workers and Domestic Wage Levels With an Illustration from the Swiss Case

PART I

THE GENERAL PROBLEM

1. Introduction

Since 1950 a number of countries in Western Europe have been importing workers from abroad, and some of them now have a sizeable foreign labour force. For many years the causes of this phenomenon, and its ultimate consequences for the economies of the countries concerned, were given but scant attention. Only during the last two years or so (1960-62) has it come to be considered, in some of these countries at least, and most particularly in Switzerland, a special problem requiring fresh thinking.

The Rome Treaty of 1957, setting up the European Economic Community of the Six, looked towards greater freedom of movement of labour between member countries as an essential part of economic, and eventually political, integration in Western Europe. But the big movements of foreign labour which have taken place towards certain countries in North West Europe during the last ten to fifteen years have obviously been independent of any dispositions taken under this new charter of international economic co-operation, which is still only a few years old, and does not apply to all of the countries concerned. Among members of the Community, France, the Federal Republic of Germany, Belgium, and Luxemburg have all been substantial importers of foreign labour, while Italy has so far been the largest single exporter, and the Netherlands a fairly important one. But the largest importer in proportion to its population, Switzerland, is not so far a member; and another importer, Great Britain, is in the same position. Austria,

Spain, and other non-member countries have been among the exporters.

A few figures will indicate the order of magnitude which the movement of labour between countries has assumed. In August 1962, Switzerland, with a resident or *de jure* population of only about 5.6 million, had some 750,000 foreign workers (1), representing close to 30 per cent of her total employed labour force. About 70 per cent, of the foreign workers were Italians. In September 1962, the Federal Republic of Germany (excluding Berlin) had almost as many foreign workers in absolute terms (706,000) as Switzerland. In Germany's case, however, this number still represented only a small proportion (a little over 3 per cent) of the estimated total employment figure, and was, of course, small also in relation to her population of nearly 55 million. Out of Germany's total of foreign workers roughly 40 per cent were Italians. For France the exact size of the foreign labour force cannot be calculated since statistics are available only for arrivals of foreign workers and not for departures. The cumulative total of all the annual figures for arrivals of workers placed in "permanent employment" during the fifteen years 1947-61 amounts, however, to well over 700,000 (2); and towards the end of that period the number of "seasonal" workers (the vast majority of them employed in agriculture) was about 100,000. Well over half of the permanent workers were Italians. About two-thirds of the seasonal workers were Spaniards.

It was customary for some years, in these and other countries, to regard the importation of foreign workers as a temporary phenomenon, due to the "exceptional boom conditions" in the economies concerned, or to "over-full employment" engendered by recurrent waves of international inflation. And it was supposed that the great majority of the workers would be sent home when business had returned to a more normal pace. On the Continent, at least, it was seldom thought appropriate to use the word "immigrants" in connection with these workers. A good many of those who were once considered "temporary" have, however,

(1) This rough estimate makes allowance for the foreign workers (a small proportion of the total) who were exempt from police control. (See pp. 46 ff below). It should be noticed that a good part of the remainder (*i.e.* those still subject to police control) were seasonal workers and "frontier commuters" not counted in the figure quoted above for the "resident population". (See p. 62 below).

(2) The figures are exclusive of "repatriates" or "immigrants" from Algeria.

now been living in their countries of adoption for periods of ten to fifteen years. And instead of its being a case of dismissing workers as the need for their services passed, there have, in all the countries concerned, been continual new hirings. The dependence of some of the European economies on foreign labour has thus assumed an aspect of permanency which had previously been quite unforeseen. So far as the foreign labour forces already employed are concerned, this dependency is now generally accepted as a fact. What is not so clearly perceived is how it came about.

The general economic picture of which it has been a part is not identical from one country to another. For example, foreign labour has been imported by countries where capital has been scarce in relation to needs, as well as by countries where it has been abundant. And it has been imported by at least one country where the general wage level has been rising at a faster rate than the country could afford without continually running into balance of payments difficulties, as well as by countries where this was not the case.

Another striking fact is that among the importers are several very densely populated countries, of which it was being said shortly after the War that their chances of keeping real income per head high, and rising, in the future depended on their encouraging emigration. On the other hand, the immigration which has actually taken place to these and other Western European countries is clearly not the result of a deliberate policy, inspired by social motives, of admitting people from the poorer parts of the world to share in the benefits of the better endowments with natural resources, capital and entrepreneurship of the richer parts. What effect has actually been achieved in this direction has not been consciously sought.

Special circumstances, connected with the extreme liberality up to the present of the law relating to immigration from Commonwealth countries have attended the case of Great Britain; and have helped determine the areas of origin — largely extra-European — of the immigrants. But even in Western Germany, where no similar circumstances exist, the increasing difficulty of obtaining further supplies of labour from European countries has given rise to the suggestion that recruiting should be extended to other Continents, *e.g.* to North Africa and certain Eastern countries. For Switzerland the recruiting grounds have so far remained almost

exclusively European. Certain social problems have thus been avoided. Nevertheless, the very high proportion of the labour force which is already foreign in that country has political and social implications — the danger of “over-foreignization” — which cause many local observers to see a necessity for discouraging the importation of additional contingents.

The common factor, responsible for the importation of foreign labour by the various countries, has been an acute shortage of domestic labour for doing certain jobs. A list of the industries and occupations with the most conspicuous shortages is not exactly identical for all of the countries concerned, one obvious reason being that some of the industries which are important in some of the countries are unimportant, or even non-existent, in others. Nonetheless the lists for different countries show marked similarities. Each individual list would contain some at least of the following sectors: hotels and catering; domestic service; hospitals (orderlies); transport (railway porters, and bus conductors); the clothing industry; textiles; mining; metal-working and engineering; construction; and agriculture. In some countries (Switzerland being the best example so far), the number of industries and occupations registering a shortage of domestic labour has multiplied as the years have passed. The original situation, as it was in say 1949-50, of labour “bottle-necks” in particular sectors of the economy appeared, ten years later, to have proliferated into a general scarcity of labour.

The dropping, almost everywhere, during the last year or two of the view that the European countries concerned would be able to dispense with the bulk of their foreign workers at some future date when the strain on their economies finally eased has caused some commentators to move to the opposite extreme of assuming it to be inevitable that some of these countries should go on adding to their foreign labour forces over an indefinitely long period in the future. They argue, for example, that continual new hirings of foreign workers by all sectors of the economy will be necessary as a means of allowing these countries to reach, or maintain (in face of a low, and perhaps declining rate of growth of the native labour force, and a reduction in the length of the working week) a certain “target” rate of economic growth. There is no doubt, of course, that aiming at high targets for *global* income growth in particular countries might necessitate very high rates of importation of foreign labour — and, incidentally, lead to quite low rates

of growth in income *per head*. This aim — or the “cult of the growth rate” as it has sometimes been called in Switzerland — is based essentially on political considerations, and on the notion, which is perhaps more prevalent in the United States than in Western Europe, that its pursuit is a way of increasing security. I shall not make it part of my present task to examine either the merits of this aim, or ways of achieving it.

Even when more traditional aims of economic policy are accepted, however, there are many aspects of the foreign labour problem which merit closer inspection than they have so far received in the reporting, most of it confined to newspaper articles, on this subject. It is such an inspection that I shall try to make in what follows. I may anticipate some of the results by listing three main conclusions.

1. A persistent “scarcity” of domestic labour is (like a scarcity of any other “commodity”) ultimately a wage (or price) question. The scarcity implies one or both of two things. Either the *general* wage level is lower than what the country can afford while providing full employment for its domestic labour force. Or the structure of *relative* wage rates as between different industries and occupations is “wrong”. I shall argue that the primary reason for the recent large-scale importation of foreign labour by the European countries concerned is that relative wages have been out of line with conditions on the supply side of the domestic labour market; but that in some of those countries “too low” a general wage level may also have been a factor over part at least of the time.

2. This argument implies that, though “exceptional boom conditions” may have intensified the demand for foreign labour, and a slackening of those conditions (as in 1958-59) have weakened it, they are not a sufficient explanation of that demand. Moreover, the importation of foreign labour, originally caused by labour bottlenecks in particular sectors of the economy, may itself lead, unless halted in time, to the development of a generalized shortage of domestic labour combined with other symptoms of “over-full employment” or “exceptional boom conditions”. Or it may accentuate these symptoms if they are present for other reasons. There is thus some danger of mistaking the effect for the cause.

3. The traditional view as to who benefits from the importation of foreign labour must, for the short or medium run — though

not for the long — be modified. I do not here question the view that the immigrants benefit, in both the short run and the long. For we may take it for granted that they would not leave home unless the economic conditions obtained abroad were better than those offered at home. My enquiry is concerned solely with the effect of immigration on the economic position of the native population, or native labour force, of the country concerned. Its conclusion is that the native labour force, or the bulk of it, may, for a certain period, be benefitted, and not harmed, by certain forms of immigration, including those which have prevailed during the last decade or so in some Western European countries. Over the longer run, however, the effect will normally be as the Classical view assumed, that is, disadvantageous to the native labour force.

2. Relative Wage Rates and Labour Shortages

Many kinds of distortion in the structure of relative wage rates are conceivable such as might, for as long as they lasted, cause the supply of domestic labour to individual sectors of the economy to fall seriously short of the demand in those sectors. I shall here consider only two examples. I shall first describe them as two distinct cases, though they may in reality be superimposed one upon the other. Both have, in fact, played a role in the period since 1950; although the second has probably been more important than the first (3).

The first case is that where collective bargaining leads to the establishment of "productivity differentials" in the structure of negotiated wage rates for the various industries. This case is most likely to arise when big differences exist between the rates of technical progress, and therefore of productivity growth, in different industries. We may think of the economy as divisible into two sectors, one (Sector I) containing the industries with a high average rate of technical progress and productivity growth, and the other (Sector II) containing the industries with a low, or possibly zero, rate. Up to now the wage rate was, let us assume, the same in both sectors. But now the workers in Sector I succeed in obtaining wage increases which exceed the current increase in average produc-

(3) A third case — that of institutional lags — is referred to in n. 5 on p. 11 below.

tivity (4) over the economic system as a whole, while the workers in Sector II obtain wage advances smaller than this. What this situation means, if it lasts, is that, even if wages on the whole do not rise by more than productivity, Sector I fails to pass on to Sector-II workers (via an appropriate change in the price ratio, or terms of trade, between the two groups of products) a fair share in the overall productivity increase.

The second case springs from quite a different source, namely a change on the supply side of the labour market, brought about by the extension of high levels of education, and opportunities for obtaining technical and other advanced training, to a larger proportion than previously of the population. This change may be due as much to the rise in real income levels of parents, and the consequent relaxation of pressure on children to start earning at an early age, as to the improvement in the educational facilities provided by the public authorities. It means that year after year, as each class of new entrants to the labour force replaces a class that is retiring, the proportion of the total labour force which is able to compete for the more skilled jobs grows in comparison with the proportion which can aspire only to the less skilled ones. The labour force becomes, on the average, more versatile than it was previously.

Historically this tendency towards an evening-up of the quality of different parts of the labour force is, of course, merely a continuation of a process that has been going on in most western countries for many decades. Its consequences were a familiar subject of discussion among earlier generations of economists, who took it for granted that one consequence would be a changed structure of relative wage rates. Thus the wage rates for unskilled jobs would draw closer to those for skilled jobs; and within the latter category the rates for the lower skills would rise relatively to those for the higher ones. Manual workers would gain ground relatively to the "white-collared" group. And the rates paid for jobs which were regarded as particularly disagreeable (such as mining, or "dirty" jobs, or the "hot" jobs in metal-working), or of low social standing

(4) I use this formula subject to the reservation that it gives only a very rough approach to the true relationship that should exist between the wage rise in individual sectors and the rise in average productivity over the entire economic system. The formula will be inaccurate whenever the proportional rise in labour's average productivity (a quantity which is roughly measurable statistically) fails to coincide with the proportional rise in its marginal productivity (a quantity which is not measurable statistically).

(such as domestic service), or which involved "abnormal" arrangements of working hours (such as hotel and restaurant work), would rise relatively to the rates paid for jobs that were free from such disadvantages. More generally, the jobs which had been relatively poorly-paid previously, or which were unattractive on other grounds ("Sector-II jobs" let us again call them) would rise in the wage scale relatively to the jobs that had been well-paid previously, or were for other reasons more attractive ("Sector-I jobs"). If, during the period concerned, the advance in educational levels was greater among young women than among young men, because more girls were being given opportunities which mainly boys had enjoyed previously, one of the changes in the earnings structure would be a narrowing of the gap between women's earnings and men's.

Changes in relative wages along these lines had certainly taken place in the past. But it appears that in the 1950's — despite the continued progress towards educational equality — such changes had, in many cases, very much slowed down or even come to a stop. Making them would of course imply that, if inflationary pressure on costs and prices was to be avoided, the workers in Sector-I jobs must content themselves for a while with wage advances lagging perceptibly behind the average increase in productivity in the economic system as a whole, while the workers in Sector-II jobs enjoyed advances exceeding that average.

Characteristic of post-war economic history is the spectacular technical progress, and big increase in productivity, which has taken place in certain industries but not in others. This development may, indirectly at least, have been doubly responsible for causing the wage structure to deviate from the "right" pattern. It has undoubtedly encouraged claims by organized labour for "productivity differentials", referred to in my first case. And it may also have been partly to blame for a strong reluctance in responsible quarters to advocate relative wage adjustments of the kind referred to in my second case. For the industries in which relative rates of pay would have required raising, in order to keep up the supply of labour, happen also to be, in many instances, industries where the growth in productivity has been well below average or even, in a few cases, zero. This combination of circumstances meant that, if wages in the one group of industries were to be raised relatively to those in the other group, the prices of some of the goods and services produced by the former would have had to rise very sharply

indeed in relation to those produced by the latter. Several obvious examples come to mind of industries that have in the post-war period been affected by this coincidence between a low initial position in the scale of relative wages and a less than average rate of productivity increase. Among them are the textile and clothing industries, the hotel and catering trades, and domestic service, all of which had long been favoured from a cost standpoint by the low rates of pay of the large supply of workers — especially women — who had in the past been unable to qualify for much else. In some countries too, the building industry had been in a similar position by virtue of the low rates of pay of the large numbers of unskilled and semi-skilled workers which it used.

In an economy which was dependent solely on the domestic labour supply, it would, however, be difficult in either of the two cases mentioned, to avoid for long making the relevant adjustments in relative wage rates. The newly created "productivity differentials" would eventually have to be removed in the one case; and the old system of skill, sex, and occupational differentials would have to be revised in the other.

In what follows I shall use the term "Sector I" (or "Sector II") in the broad sense of all the jobs that are relatively too high (or low) in the wage scale, regardless of which of our two explanations of the cause applies (5). It is then conceivable that certain unskilled jobs in branches benefitting from productivity differentials may, because their rate of pay is high relatively to that of skilled jobs in branches not thus benefitting, form part of Sector I, even if unskilled jobs generally belong to Sector II. For a similar reason, Sector I may contain some skilled jobs belonging to the lower end of the skill scale, along with those belonging to the upper end.

The relative wage adjustments of which we have been speaking might be postponed for a while if Sector II happened to consist only, or mostly, of the occupations where — in response to changes

(5) Some countries have experienced shortages of labour not only at the lower end of the skill-and wage-scale, but also at the upper end, *i.e.* in some of the professions, and in some classes of institutional employment, where fees and salaries have fallen behind in relation to earnings levels in alternative jobs for which the same people can qualify. The "institutional stickiness" of some salaries, especially in times of inflation, may be listed as a third cause of labour bottlenecks in the situation we are studying. (It should be noticed, however, in connection with what comes later, that shortages of domestic labour in these branches are usually more difficult to overcome by importing foreign labour than are shortages in the branches at the lower end of the skill-scale).

in tastes or in technology, for example — the demand schedules for labour were shifting downwards, and Sector I of those where these schedules were shifting upwards. And some of them (those due to our second cause) might, under these conditions, be permanently avoided. But in the recent historical circumstances of the countries with which we are concerned, though there may have been some such correspondence between shifts on the demand side of the labour market and shifts on the supply side, it has evidently not been sufficient. (I shall consider later (6) the question of whether there is a prospect of a more complete correspondence in the future).

In such circumstances, failure to make the appropriate relative wage adjustments would be bound to lead, fairly soon, to an unbalanced situation on the labour market. A disproportionately large part of the domestic labour force in relation to the employment opportunities would be trying to obtain employment in Sector I (containing the well-paid, or more attractive jobs), and a disproportionately small part in Sector II (containing the poorly-paid, or less attractive jobs). There would develop a persistent tendency towards a surplus of labour (in the face of "no vacancies") in Sector I, and a shortage of labour (or unfilled vacancies) in Sector II. This tendency would grow stronger year by year as the labour force came, through the normal replacement process, to consist more and more largely of people with the higher levels of education and training.

It is true that, if the unemployment among the would-be entrants to Sector I lasted long enough, this would eventually drive most of the people concerned into Sector II (7). For a while, however, some of these people might prefer, instead of at once going into Sector II, to wait for "better times", which might in fact be just around the corner. For it might not be very long before the pressure towards an improvement in Sector-II wages, relatively to those of

(6) See pp. 44-5 below.

(7) Importance would doubtless be attached to this factor by advocates of the "job opportunities theory" of labour distribution. This is the view that the relative availability of jobs in different industries and occupations is often sufficient, even in the absence of relative wage adjustments, to attract labour away from places where it is not needed to places where it is. Cf. W. B. REDDAWAY's article "Wage Flexibility and the Distribution of Labour", in *Lloyds Bank Review*, Oct. 1959 (pp. 32-48). The theory is perhaps, however, chiefly relevant in connection with the problem of drawing workers out of industries with a declining demand for labour into those with an expanding demand for labour of approximately the same skill level and wage level. The case for relative wage adjustments is very much stronger in the situation which I am discussing here.

Sector I, became irresistible. One possibility here is that the presence of large numbers of workers seeking to enter Sector I would strengthen the resistance of employers there to claims for wage advances at the next bargaining round. But even if the structure of relative wage rates arrived at by negotiation between employers and trade unions remained rigid, because, say, certain trade unions insisted on preserving "customary" skill, and sex differentials, and/or on maintaining productivity differentials, there is a second possibility. The difficulty of getting workers to take Sector-II jobs would induce many employers to raise the effective wage rates for such jobs above the negotiated rates. Nationalized industries, or public and semi-public institutions, employing workers in Sector-II jobs, might, if obliged to adhere strictly to the agreed wage tables, fail to participate in this adjustment process; and they would in consequence become the branches of the economy registering the most acute labour shortages. But in the private sector of the economy, the effective rates would establish the new pattern in advance of the negotiated rates. The difference between the two sets of rates for Sector-II jobs would, so long as it lasted, form part of the phenomenon known as the "wage drift" (8).

A situation might then be created in which, even if negotiated wage rates in Sectors I and II together were on the average rising about as fast as average productivity, and not faster, yet the tendency for many of the effective wage rates in Sector II to run ahead of the negotiated rates would be a source of inflationary pressure on costs and prices.

In almost all of the countries of North West Europe, observers have noticed the tendency for people to move out of the poorly-paid, or otherwise less attractive, jobs into the better-paid, or more attractive, ones; and, most especially, for the young people leaving school to avoid certain trades altogether. In other times it might have seemed natural to conclude that the means of keeping up the supply of labour to these trades must be an improvement in their

(8) In those countries where advanced levels of education are not yet so widely spread among the population, and where in consequence the well-educated and well-trained part of the labour force is only a comparatively small part of the whole, a relative wage problem opposite to that treated in the text above may arise. Collective bargaining may tend to narrow the differentials between skilled and unskilled jobs, for example, faster than is compatible with encouraging the necessary growth in the supply of skilled labour. It will then be in some of the better-paid jobs that the effective rates of pay soar above the negotiated rates. (Cf. the case of Italy).

relative wage position. In the period since the war, however, thinking about wages policy has been almost exclusively concerned with the danger of too rapid a rise in the *general* wage level, and its inflationary consequences. Only rarely has flexibility of relative wage rates been explicitly accorded a certain importance.

In Great Britain, the Council on Prices, Productivity and Income (Cohen Council) expressed the view in 1958 (9) that:

“the appropriate level of wages in any occupation does not depend only on what is happening even to overall productivity; it depends also on the conditions of demand for and supply of labour in that particular occupation. ... We think it most important that the flexibility of relative wages in response to changes in the demand for labour should be preserved, since in a free enterprise economy without direction of labour this is the main means on which we must rely for ensuring the most efficient distribution of the country's labour force”.

We may notice that this statement of the case for flexibility places more stress on shifts in the demand for labour, as between the various industries or occupations, than on changes in the supply of labour, as between the various grades. But it may be the latter which, in recent years, have created the stronger need for adjustments in relative wage rates (10) in those countries with which we are here concerned.

The more recent British Government “White Paper” on “Incomes Policy” (11), after referring to the need for keeping wage and salary increases generally within the figure for the rise in national production per head, concedes that particular wage increases may be required in certain cases. It remarks:

“In a fully employed economy there are bound to be scarcities of many kinds of labour. A shortage of labour within a particular industry or firm would not of itself warrant an increase in pay. It is only when the building up of manpower in one industry relatively to others, or the prevention of a threatened decline, is plainly necessary that an increase on these grounds could be justified”.

Generally speaking, however, relative wage adjustments have not, with rare exceptions, been regarded as “plainly necessary”.

(9) First Report, pp. 44-5.

(10) Cf. n. 7 on p. 12 above.

(11) “Incomes Policy: The Next Step”, published in February 1962.

On the contrary, the view of those who have been concerned, in their respective countries, with the task of obtaining agreement on a national wages policy has usually been that it would be unwise to complicate this task by superimposing a problem of relative wage adjustments on top of that of keeping the general wage level within bounds. In a situation where the halting of inflation appears to be the number-one problem, the simple formula prescribing that everybody's money wages should rise by the same percentage, corresponding to the rise in average productivity, has an almost irresistible appeal, engendered by the not unwarranted fear that, if the workers in some industries or occupations are granted wage increases exceeding the average productivity increase, the workers in the others may not be willing — as the necessary offset — to content themselves with advances lagging behind the average. The danger of inflation from this source is the same whether the more-than-average increases are sanctioned by the collective contracts for the respective industries, or whether they come about through the “wage drift”. And in Switzerland, for example, employers have recently been exhorted to refrain from trying to solve the problem of labour shortages by offering workers rates of pay higher than those fixed by the relevant collective contracts (12).

The alternative solution which had so far in fact been adopted to this problem — most particularly in Switzerland, but not only there — was a policy of “selective immigration”.

3. Selective Immigration as a Way of Postponing Relative Wage Adjustments

In the case we are analysing, a policy of selective immigration means granting work permits to foreigners willing to take the less well-paid, or for other reasons less attractive, jobs (in Sector II), while reserving the better-paid, or more attractive, jobs (in Sector I) for natives.

Initially at least, given the low levels of remuneration, and/or high levels of unemployment, prevailing in certain foreign countries, an almost unlimited supply of foreign labour may be available for filling, at the current wage rate, the jobs which native

(12) In Switzerland the larger firms had in the past generally refrained from this practice, though the smaller ones may sometimes have resorted to it.

labour is reluctant to take at that rate. The difficulty of getting people to enter Sector-II industries and occupations can thus be overcome; and at the same time the privileged relative wage position which the workers in Sector-I industries and occupations enjoy can be maintained. Some native workers, i.e. those who are left behind in Sector II, will, it is true, remain in an underprivileged position. But in the course of time their number may be reduced to quite a small proportion of the whole. For, if other circumstances (regarding, for example, the capital supply) are favourable, the importation of foreign workers for employment in Sector II will create additional employment opportunities, at the given relative wage level, in Sector I. It thus becomes possible, if immigration into Sector II is carried far enough, to employ in Sector I all of the native labour that is able to "qualify" for employment in some part or other of that sector. And we may suppose, in accordance with the assumption made previously about the diffusion among the younger generation in the countries concerned of high levels of educational attainment, that, within a limited number of years from the time when the immigration starts, by far the greater part of the native labour force will be able thus to qualify. Only certain groups will be unable to do so, e.g. older people who are poorly educated and trained by present-day standards, but whose numbers are dwindling year by year through retirement; younger people who, despite good educational opportunities, are naturally incapable of reaching the level of technical efficiency (13) required for Sector-I jobs (14); and finally, people who are reluctant, once in employment of some kind, to move from one place or job to another.

It does not, of course, follow that all of the foreign workers admitted to Sector II will be unqualified to work in any part of Sector I. Many of them, certainly, will be excluded from all, or most (15) of this sector by a "natural" barrier, consisting in their

(13) Some jobs in the sector may be relatively low in the skill hierarchy but require great physical strength, which again not all people will possess.

(14) I shall have more to say later (p. 32) about other factors which help to determine how large a part of the native labour force will be unable to qualify for entry into Sector I.

(15) I am here allowing for the possibility (referred to on p. 11 above) that Sector I may contain some jobs which are unskilled, or which, though skilled, belong to the lower ranks of the skill hierarchy.

low level of education and training (16). But for others the barrier keeping them out can only be one established by authority. In other words, the "selectivity" of the immigration may come from either of two quite different sources, one consisting of the "natural inferiority" (17) of the immigrants, and the other created by the artifices of legislation, or, possibly, by trade union regulations.

The natural barrier will usually be effective for a longer period than the artificial one. In most countries it is considered socially and politically desirable, and it may eventually become necessary as one of the means of luring foreign workers into the country initially, to accord them the right, after a certain period of work, or residence, to choose and change their jobs freely, and thus to be assimilated in this respect to native workers (18). "Assimilation" means allowing those foreign workers who are qualified for Sector-I jobs to shift over to this sector. (It leads to what we shall later refer to as the "automatic spilling over" of such workers from Sector II to Sector I). But for those who are not thus qualified, assimilation obviously does not mean this. So far as this group is concerned, shifting out of the poorly-paid sector into the well-paid

(16) An analogy exists, obviously, between the kind of division in a country's labour market that I am examining in this article and the kind which has grown up in some parts of the world on the basis of a distinction between "white" and "coloured" workers, rather than, or in addition to, that between "native" and "foreign-born" workers. In a country among whose white population a good level of education is almost universal, the presence within its boundaries of a large and increasing coloured population, which has on the whole a much poorer education, and may besides be excluded from certain jobs by trade-union, employer, or customer discrimination, will perform the same function in allowing certain wage differentials to be preserved as does the importation of foreign labour in the case with which I am concerned in the text. Such a country may even be confronted with the opposite problem to the one there considered. It may, that is to say, find itself with what is, at the ruling relative wage rates, a superabundance of unskilled labour.

Another, also similar, kind of division in the labour market has been treated in a previous number of this Review. Cf. VERA LUTZ, "The Growth Process in a Dual Economic System", *Banca Nazionale del Lavoro, Quarterly Review*, Sept. 1958.

(17) I shall not here be concerned with the opposite kind of selectivity, associated with a "natural superiority" of the immigrants compared with natives. This may exist or have existed, in other countries, or at other times, but is not relevant to the present situation in North West Europe.

(18) The practice in this regard differs in degree of liberality from one country to another. In some countries the rule is to allow the foreign worker initially admitted to one occupation to transfer to any other he may choose, and be qualified for, after a comparatively short period, such as a year. In others the normal period may be as long as ten years (as in Switzerland); and even then, many of the workers may be barred from "assimilation" by reason of their being granted only "seasonal status". One country can afford to be less generous in this respect than another if the other conditions it has to offer, such as the wage level, proximity to the homes of the immigrants, etc., are more favourable.

one comes only with the next generation, by virtue of its having profited from the local educational opportunities, etc. It is thus a phenomenon of the much longer run.

4. A Boom Based on the Importation of Foreign Labour

Assuming that the conditions (on the capital market, for example) are favourable, the importation of foreign labour into Sector II, and shifting of native labour into Sector I, will allow both sectors of the economy to expand, in terms of employment and output, more rapidly than they could have done on the basis of the available domestic labour supply alone. And as the expansion proceeds it will give increasing signs of what is usually called "over-full employment", or "exceptional boom conditions". Indeed, the process of importing foreign labour may eventually be carried "too far", in the sense that it is allowed to slip beyond the point where it is just sufficient to restore the appropriate proportions between the labour supplies in the two sectors of the economy, and begins instead to perform a different function. The way in which this comes about is the following.

Provided the rules about sector demarcation between native and foreign workers are, in the beginning at least, strictly kept, the time will come when labour appears to be growing scarcer in Sector I than it now is in Sector II. For while Sector II is drawing period after period on what may, for a long while, be a highly elastic supply of foreign labour, Sector I is moving always closer to the limit on further employment expansion due to the ultimate inelasticity of the supply of "qualified" native labour. The time will come, that is to say, when the process of "shifting" native labour out of Sector II into Sector I has been more or less completed, and when the current new supply of native workers to Sector I is henceforth reduced to rough equivalence with the natural increment in the native labour force. To this has to be added the "automatic spill-over" into Sector I of foreign workers originally employed by Sector II but now eligible for employment in Sector I. The numbers of these may, for a time at least, be quite small, however. On the other hand, so long as employment in Sector II continues expanding at any given pace, the demand for labour in Sector I will go on increasing at a similar pace; and the same is, of course, true the other way round.

Consequently, unless the pace at which additional contingents of foreign labour are imported, period by period, into Sector II is slackened in time, the difficulty of filling job vacancies with native labour, a difficulty which was confined in the first phase to a limited number of "bottleneck" trades, will develop in a second phase, into a generalized phenomenon affecting all, or almost all, trades.

The first effect of the growing shortage of labour in Sector I will be to cause some native workers (and "assimilated" foreign workers) who are poorly qualified for entry into that sector to be nonetheless "promoted" to it. The result will be a perceptible lowering of average standards of efficiency — in shops and offices and elsewhere — in Sector I, at the same time as language and other difficulties of adaptation among the foreign workers in Sector II produce a similar deterioration there. Again we are confronted with a phenomenon that has come to be associated in most people's minds with "exceptional boom conditions".

The growing tightness of the labour situation in Sector I may, however, have a further consequence. With the explanation of "exceptional boom conditions" in mind, the authorities will most likely follow the principle of allowing foreign workers in general (and not merely the already "assimilated" ones) to take jobs in any trade registering a shortage of native labour, instead of the principle of confining them to jobs in "Sector II", as we have defined it. In this second phase, then, if it is reached, such foreign workers will most probably be admitted to Sector I, while additional contingents continue to immigrate into Sector II as well.

Once this happens, however, the function of the immigration has altered. Instead of, as in the first phase, serving merely to fill the gaps in the labour supply caused by too low a relative wage level in part of the economy, it henceforth serves to swell the labour supply in both parts; and its main effect may then be to keep the general wage level from rising as fast as it otherwise might (19).

The widening of the employment base of the country's economy, due to immigration, will be associated with an increased demand for investment funds. Thus, in the normal case, where

(19) Cf. pp. 22 ff below for a full discussion of the relationship between immigration levels and wage levels.

the capital supply (domestic and foreign) available to the economy in any period is not infinitely elastic, immigration will cause the capital market to become tighter; and the more so the bigger the immigration is. The effect may, however, be more or less marked. In some cases, the heavier demand for capital may be reflected in an acute "shortage", and a tendency (unless an inflationary monetary policy is being followed) for interest rates to rise very high. This development may itself hinder the process of employment expansion based on immigration from progressing fast, or far. In other cases, the heavier demand may simply mean greater ease in absorbing into investment, at relatively good rates of return, what might otherwise have appeared to be a "superabundance" of capital. Such conditions will be especially favourable to an expansion process based on the importation of foreign labour. A very special case would be that where the amount of capital effectively made available to the country's economy in any period could be, and was, adjusted to the size of the total labour force (domestic plus foreign), so as to prevent the supply price of capital from being affected. What I have in mind here is the possibility that the monetary authorities of a country with an exceptionally large inflow of foreign capital might, in their effort to combat inflation, sterilize a part of that inflow, but a smaller part the larger was the amount of foreign labour coming in, on the grounds that the importation of foreign labour was itself an anti-inflationary factor because of its effect in modifying the rise in the average level of domestic money wages (20).

5. The Traditional View of the Effect of Immigration on Wage Levels

It is a familiar proposition of neo-Classical economic theory that the movement of labour between areas reduces wage differences between them by making the general wage level in the area of emigration higher, and the level in the area of immigration lower, than it would otherwise be.

The traditional theory recognized that language differences and various other social barriers, the cost and trouble of moving, and the preference of many people for staying at home so long as they were reasonably well off, would always prevent perfect equa-

(20) Cf. however, the argument on pp. 66-7 below.

lity of wage levels between countries (and regions) from being reached. It was, moreover, an acknowledged purpose of the legal restrictions, which most of the richer countries have in modern times placed on immigration, to protect the wage level of the native labour force from the downward pressure which might otherwise be exerted on it by the competition, on those countries' labour markets, of large numbers of foreign workers wanting to immigrate from the poorer countries. The theory allowed, also, that the native labour force, provided it had sufficient collective bargaining power, might protect itself, independently of legislative restrictions on immigration, by its own wage policy. It might, that is to say, set the general wage level in the country at a height such that it paid entrepreneurs to hire labour only to an extent just sufficient to provide full employment for the available supply of native labour. Only if the wage level were set somewhat below this would there be a "labour shortage" inducing entrepreneurs to import foreign labour. The importation of such labour would, in other words, be an alternative to raising the wage level of the native labour force.

In the traditional view, then, the economic advantage appeared — so far as labour was concerned — to be squarely on the side of the immigrants. The native labour force in the country of immigration was, from the economic point of view, making a sacrifice. From the standpoint of the internationalist, making no distinction between natives and foreigners, there was, of course, a net gain. Total world income was raised by moving labour from places where its productivity was low to places where that productivity was higher.

The traditional theory of the effect of immigration on domestic wages was, however, couched exclusively in terms of the general wage level. It was implicitly based on certain assumptions concerning the nature of the labour supply and labour market, assumptions which obviated the necessity of referring to any effect on relative wage rates. One assumption was that, if legal restrictions were imposed on immigration, they were of a very simple kind. They limited the number of foreigners who might take employment in the country concerned, but did not discriminate between jobs so as to allow these foreigners to take only certain

(21) It is not my purpose to consider political and related reasons for which immigration may be encouraged.

jobs but not others. Nor, similarly, was trade union policy supposed to act in this latter fashion. Another implicit assumption was that, though neither of the two labour groups, native or foreign, was perfectly homogeneous, in the sense that all members of the group were equally capable of doing the same jobs, the "quality distribution" of the members of one group was not significantly different from that of the other, so that, by and large, foreigners were able to qualify for the same jobs as natives.

Immigration was in such circumstances unselective. And in these circumstances we can scarcely question the conclusion of the traditional theory that the real wage level of the native labour force in a country would have to be lower (or to rise less fast in response to capital accumulation, etc.) if foreign workers were admitted to that country's labour market than if they were not.

But it is the assumption that the immigration is of this unselective kind that needs modifying if the theory is to explain what has actually happened in recent years. And what I shall do in the next sections is to examine how — temporarily at least — selective immigration differs in its effect from the unselective variety.

6. The Effect of Selective Immigration on the Real Wages of the Native Labour Force in the Short Run

Selective immigration makes it possible, as we saw, for the workers in one group of jobs, in which only, or almost only, native labour is employed, to preserve a relative wage advantage — which might otherwise be reduced or lost — with respect to the workers in another group of jobs, in which mostly foreign labour is henceforth employed. The fact that a policy of selective immigration has this effect is not yet sufficient, however, to show that such a policy is in the interest of the native labour force, or even of what we have called the "qualified" part of that labour force. For immigration will not only affect the structure of relative wage rates between different jobs. It will also make the general wage level (i.e. the average of the absolute wage levels for the two job-groups) which the country can afford lower than it would be in the absence of immigration. There are thus two forces at work, and it is to their combined effect that we must now turn our attention.

In this, and the following sections, I shall break away from the particular historical events that were mentioned above (22), in order to consider in more general terms the conditions under which the native labour force can benefit, in the "short run" at least, from a policy of selective immigration. That is to say, I shall now look at the problem, not as one of maintaining an already established wage differential between Sector-I and Sector-II jobs, but as one of determining what wage level may be set in Sector I, and what wage differential created between it and Sector II, when foreign labour is imported into the latter.

The "short run" is here to be understood as the period for which selective immigration allows the workers in Sector I to maintain their privileged position with respect to Sector-II workers; for there is little likelihood that it can do so permanently. This period is not necessarily short in an absolute sense. It may, under present conditions, be something like fifteen to twenty years.

A serious complication is the lack of any unambiguous way of defining the "interest" of the native labour force, or even of the "qualified" part of the latter. So long as we assume that the division, as regards activities covered, between what we have called Sectors I and II of the economy is given, we may suppose that the number of native workers able to qualify for entry into Sector I is also given. In fact, however, the choice of a proper demarcation line between the sectors is part of our problem; and one of the effects of changing the position of this line is to alter the proportion of native workers who can qualify for entry into Sector I over against the proportion that cannot.

In order to sidetrack this difficulty, I am going for the present to make a very bold assumption: namely that, no matter how narrowly Sector I is defined as regards coverage of activities, from a certain date on (23) *all* native workers are able to qualify for entry into it. Then if we are looking for a solution to our problem that is an optimum solution for the native labour force, one of the conditions that must be satisfied is that the whole of the native labour force should, from that date on, be able to find employment

(22) pp. 8 ff.

(23) We are here referring to the point that the process by which the whole of the native labour force eventually finds employment in Sector I takes place gradually as the young people leaving school displace the older ones who had a relatively poor education and training.

in Sector I (24). As a further simplifying device I am going to suppose that the length of our "short run" is also independent of where the demarcation line is drawn, though this too is an unrealistic assumption which we shall eventually have to discard. Finally, in my first approach to an analysis of the factors determining the real wage levels in the two sectors, I am going to assume that the (fixed) division between the sectors as regards activities covered has been arbitrarily determined. This division will, we may suppose, cut across individual industries as well as between them. Though some industries may lie wholly within one sector or the other, others will belong to Sector I as regards part of the labour which they use and to Sector II as regards the other part. For example, an individual industry may employ domestic labour to do the skilled work, and foreign labour to do the unskilled.

The real wage (25) in both sectors will be affected by selective immigration in two ways:

1. In the "normal" case, where the supply of capital to the economy is not perfectly elastic, immigration reduces the amount of capital per head of the total labour force (domestic and foreign). And it reduces the amount of land (or natural resources) per head. Other things being equal, it thus diminishes the marginal productivity of labour in general, while augmenting that of the other factors (26) (or raising interest and profits, and land values or rents). The adverse effect, on both wage levels, from this source (27) is what we shall henceforth refer to as the "general wage-effect" of immigration. In respect of this, both types of immigration — selective and unselective — work in like fashion.

2. The second effect which selective immigration exerts on the real wage levels is one which unselective immigration does not have. And it is favourable for Sector I, and unfavourable for

(24) The argument may easily be adapted to fit the assumption that some part less than the whole can and does go into Sector I, that the remainder is employed in Sector II, but that we are still concerned with maximizing (under this changed condition) the real wage in Sector I.

(25) We may suppose this to be measured in terms of units of the "basket" of goods and services underlying the cost-of-living index.

(26) The effect will, of course, be less serious in so far as the workers themselves are from the start landowners. This is a qualification which may sometimes be relevant to part of the native labour force, but hardly ever to the foreign.

(27) I am assuming that there is not a sufficient offset from the side of a decline in the "degree of producers' monopoly".

Sector II. Selective immigration serves to make the supply of Sector-II labour more abundant relatively to the supply of Sector-I labour than it would otherwise be. And it thus renders the equilibrium ratio between the two sector wage-levels (or the wage ratio at which the demand for labour in each sector will be brought to equally with the supply in that sector) more favourable to Sector I. This is what we shall refer to as the "relative wage-effect". In general, the larger is the labour force made available to Sector II, over against any given labour force in Sector I, the bigger will this relative wage-effect be.

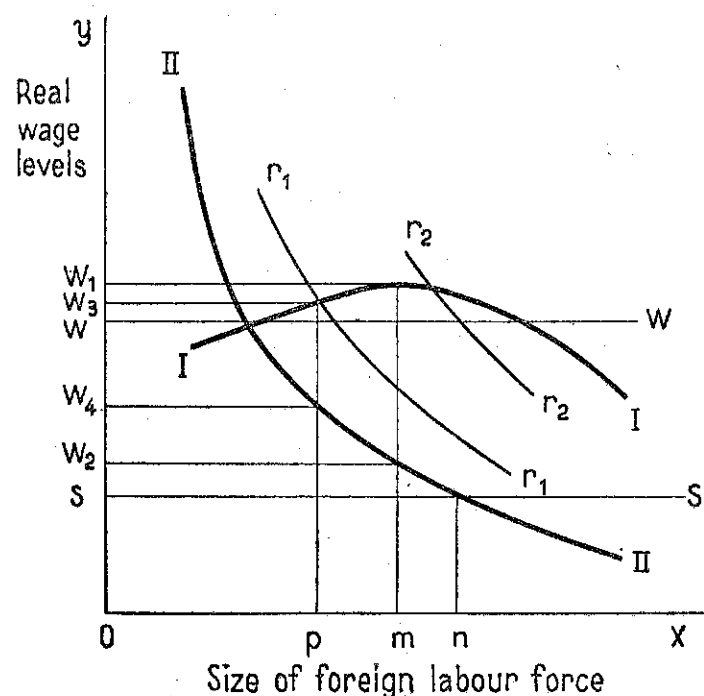
The way in which different levels of immigration influence real wages in the two sectors may best be described with the aid of a diagram. In this, real wage levels are depicted on the y-axis, and the level of immigration (28), or size of the foreign labour force (employed in Sector II), in a given period, on the x-axis. The size of the native labour force (all employed in Sector I) (29) is assumed given. The curve I-I shows how the real wage in Sector I (with its fixed employment level) moves in response to increases in the level of immigration. The way in which it moves is the combined result of two forces, one (the relative wage-effect) exerting on it an upward pull, and the other (the general wage-effect) a downward pull. (It is possible that the curve might have a different general shape from that which I have given it: it might, for example, be upward sloping over an indefinitely wide range) (30). The II-II curve shows how the real wage in Sector II moves as immigration in the period increases. It is again the result of the two forces named, both exerting here, however, a downward pull. OS represents the minimum real wage at which the foreign labour is prepared to immigrate. (I have drawn the SS curve, or supply curve for foreign labour, horizontal: but the argument is not essentially different when we assume it to be upward sloping). OW represents, let us suppose, the average real wage level which

(27) The term "level of immigration", when not otherwise qualified, will be used to mean the whole of the foreign labour force employed in the period, irrespective of whether it is the result of new immigration in that period or of the immigration of past periods.

(29) We could, of course, use the diagram equally well to demonstrate what happens when some part of the native labour force less than the whole is employed in Sector I, and the remainder is employed, along with a varying complement of foreign workers, in Sector II.

(30) Meaning that, over that range, the relative wage-effect is always strong enough relatively to the general wage-effect to outweigh the latter for Sector-I workers.

could be reached by the native labour force if no immigration at all took place, but the given native labour force divided itself between the two sectors in the equilibrium proportions, the ratio between the sector wage-levels being what it had to be in order to bring this division about.



I shall, for convenience, temporarily assume that the economy is, in all respects except that of labour movements, a closed economy, so that we may abstract from the problem of achieving equilibrium in the international balance of payments.

In the case depicted, the maximum real wage, OW_1 , which Sector I can obtain with immigration is reached at the immigration level Om ; and it exceeds the wage (OW) which could be obtained by the native labour force without immigration. At this same level of immigration, the real wage in Sector II, OW_2 , exceeds the minimum supply price (OS) of foreign labour. Immigration must thus be kept at the "right" level (Om) by a quantitative restriction (quota). Only if the I-I curve were continuously rising over a sufficiently wide range (wider than assumed in the diagram), would it pay native labour to choose the level of immigration (On)

at which the wage level in Sector II would be only just sufficient to cover the minimum supply price of foreign labour. It could, of course, never choose a level of immigration higher than this.

From this diagrammatical representation we see that, with any given division as regards coverage of activities between the two sectors, there will normally exist some determinate size of the foreign labour force which will be an optimum one from the point of view of the native labour force, at least under the assumption that the whole of the latter is qualified to enter Sector I. So long as the division between the sectors is arbitrarily determined, this optimum may, of course, be only a relative, and not an absolute one. Reaching the latter still implies choosing the "right" division between the sectors, a problem from which we are at present abstracting.

The nature of this relative optimum, when not zero (as it would be if OW in the diagram were above OW_1), may be summarized as follows. It is the size of the foreign labour force which enables the native labour force to command the maximum real wage rate that is compatible with the fulfilment of three other conditions, namely:

- (a) that the whole of the native labour force obtains employment in Sector I;
- (b) that in each sector the supply of labour just covers the demand; and
- (c) that the foreign workers, in Sector II, earn a real wage not less than the minimum below which they would not immigrate.

The extent of the benefit which the native workers can draw from any given level of immigration (as compared with the situation of no immigration) obviously depends on how strong the relative wage-effect of that immigration is in relation to the general wage-effect. The stronger the first effect is in comparison with the second, the more can the native workers gain. We should notice, further, that maximizing the absolute real wage for the native labour force, with the aid of immigration, does not necessarily mean maximizing the relative wage-advantage of Sector I (or, that is, the ratio of the Sector-I wage level to the Sector-II wage level). As is clear from the diagram, the two things will coincide only when achieving the first objective involves bringing the real wage in Sector II to equality with the minimum supply price of foreign

labour. (And this could happen only if the I-I curve was continuously rising over the relevant range).

It goes without saying that, other things being equal, the benefit which the native labour force can draw will be the larger the more elastic is the capital supply with respect to the interest or profit rate, and the less sensitive is the price of land to increases in population. In the extreme, and improbable, case of an infinite elasticity of the former combined with zero sensitivity of the latter, the general wage-effect would be non-existent. Only the relative wage-effect would be present. The I-I curve would slope upwards indefinitely; and the II-II curve would slope downwards less steeply than in the "normal" case. Here the only constraint keeping the level of immigration within bounds would be the eventual fall of the wage OW_2 to the level OS (31).

Thus far we have been speaking exclusively of where the limit to the number of foreign workers that it is profitable to employ (from the point of view of the native workers) lies in a given unit-period. The limit will, of course, change its position over time. As the various dimensions of the economy expand, e.g. as capital accumulates and the native population grows, there will, other things being equal (32), be a tendency for the optimum size of the foreign labour force to increase also. There are, however, two factors which may sooner or later put an end to this process. The land dimension of the economy does not expand. Consequently, after a while, growing population density — at least in a country where this is already high — may be associated with such a rapid rise in land values as to remove all the advantage the native labour force might otherwise obtain from a further expansion in the foreign labour force (33). A stop to the possibilities of further beneficial expansion might, however, equally well come from another side.

(31) In an economy that was "open" to international commodity trade, there would be another factor limiting the extent to which the real wage of the native labour force might be raised, namely the necessity of achieving international balance of payments equilibrium. See p. 34 below.

(32) Concerning the possible offsetting influence of technological changes, see pp. 44 f. below.

(33) For a time the effect of immigration in pushing up land values may be kept small by granting immigration permits only to the workers and not yet to their families. The fact, however, that the foreign workers will then spend a substantial part of their earnings abroad, through remittances to their families, will mean that the "relative wage-effect" of the immigration will also be reduced. (We are here, of course, departing from the assumption of an economy "closed" to international trade).

Under circumstances as they are at present, the supply price of foreign labour — the level of the SS curve in the diagram — will move upwards as time passes. This movement will be the result of the gradual improvement in general employment and wage conditions, and also in educational standards, in the countries from which the foreign labour comes.

We have here treated each single unit-period as though it could be considered in isolation from those following it. In fact the level of immigration reached in the current period will usually affect not only the current wage levels, but also those of later periods, and even periods lying well within what we have defined as our "short run". This means that we must regard our diagrams for individual unit-periods as being interrelated, and that, in determining the level of immigration that is "optimum" from the point of view of the native labour force in the current period, we must take account of the consequences which that level will have on the labour situation of subsequent periods. The most important source of this interrelatedness is the "automatic spill-over" of foreign labour from Sector II to Sector I. Its effect will be described below (34).

7. The Choice of the Demarcation Line

So far we have been assuming a purely arbitrary division between the two sectors as regards coverage of activities. Whether, and to what extent, the native labour force can benefit from a policy of selective immigration depends in part, however, on where the authorities draw the demarcation line between the two sectors. For it is partly on this that the relative strengths of the two effects of such immigration depend (35).

(34) See p. 33.

(35) The position of the line in practice will be affected by various general economic, and economic-policy factors, in considering which we must drop the assumption that the economy is "closed" to international commodity trade. There is a certain presumption that the foreign labour will be concentrated in activities supplying goods and services that must be produced *in loco* (e.g. in construction, transport, the hotel and catering business, domestic service, etc.), rather than in manufacturing industries or agriculture. For where importable goods are concerned, it will often be possible to profit from low prices due to the cheapness of foreign labour (or of certain grades of that labour) as well by importing the goods as by importing the labour. Several factors, however, prevent us from concluding that this will be the general rule. Tariff protection of the domestic market, or high transport costs, may

We may distinguish two problems here. One concerns the kind of activity that may best be included in Sector II, and the other how many activities should be included or, that is, how broad the sector should be made.

It is evident that the wage ratio between the sectors that will equate the demand for labour with the supply in each sector will depend, given the size of the (foreign) labour force in Sector II relatively to the size of the (native) labour force in Sector I, on how good a substitute Sector-II labour is, either directly (in the productive process) or indirectly (via substitution of the goods and services it produces for those it does not produce), for Sector-I labour. If the degree of substitutability is high, it will be possible to achieve only a very small relative wage-effect, in favour of Sector I, even with a large foreign labour force in proportion to the native one, and hence a large general wage-effect. In the extreme case where Sector II provided perfect substitutes for all Sector-I labour, or goods produced with that labour, there would, of course, be no possibility at all for Sector I to achieve better than a 1:1 wage ratio.

It is clear also that it will be advantageous from the point of view of Sector-I workers if Sector-II labour is used chiefly to produce goods and services that are luxuries or semi-luxuries, for which the demand is elastic with respect to income and price, and if Sector-I labour serves mostly to produce goods that are necessities, for which the demand is relatively inelastic. For in this case it will be possible for Sector I to achieve a strong relative wage-effect with a comparatively small amount of immigration into Sector II, and hence weak general wage-effect.

Our next question concerns how broad Sector II should be made in terms of the *number* of industries or occupations covered. Other things equal, the native worker employed in Sector I obviously profits the more the larger is the range of activities carried on by labour belonging to Sector II. Increasing the number of activities

make it profitable to import the labour rather than the goods. The unwillingness of investors, or entrepreneurs, to risk their capital in the countries of origin of the cheap labour may have a similar effect. And in some instances the importation of such labour may be a way of retaining in production existing industrial equipment (as, for example, in the textile sector), and farms, which would otherwise have had to be abandoned by reason of the withdrawal to more remunerative occupations of the former domestic labour force. Finally, the fact that some grades of labour are complementary in production with others will tend to make most industries employers of foreign labour to some extent.

belonging to this sector at the expense of those belonging to Sector I cannot, however, leave other things equal. It will mean reducing the relative wage-effect and/or augmenting the general wage-effect. For the smaller is the number of activities entrusted to Sector-I labour, the more of each individual activity must a given native labour force provide in order to remain fully employed in that sector. And similarly, the larger is the number of activities entrusted to Sector-II labour, the less of each individual activity can a given foreign labour force in that sector provide. With a *given* foreign labour force, then, labour for doing individual Sector-II jobs becomes scarcer relatively to labour for doing individual Sector-I jobs, and the relative wage-effect thus becomes smaller. The loss on this account can be recuperated only at the cost of increasing the size of the foreign labour force, and hence augmenting the general wage-effect. There is a limit, therefore, to how far it pays to go in shifting activities out of one sector into the other. For in the "normal" case, a continual broadening of the coverage of Sector I will lead, beyond a certain point, to a situation where what the Sector-I worker gains in one way (i.e. from the increase in the number of goods, or "parts" of goods, produced by labour that is cheap relatively to his own) he loses, or more than loses, in another way (i.e. by a reduction in the relative cheapness of that labour, and/or an increased downward pull on the general wage-level).

But extending the coverage of Sector II has still other consequences. The further it goes, the more does it tend to undermine the foundations of the two-sector division of the labour market and the corresponding wage structure. Each broadening of the sector, by raising the proportion of poorly-paid foreign labour to well-paid native labour in the economic system, increases the likelihood that the foreign labour force will soon form a pressure group strong enough successfully to push for the removal of the inferiority of its legal status with respect to that of native labour. It increases the difficulty of preventing "qualified" foreign workers from spilling over into Sector I (with consequences to which I shall refer again in a moment). In other words, the attempt to achieve for the native labour force a very large immediate benefit, instead of a more modest one, is likely to shorten the period for which the benefit lasts. The native labour force's chances of draw-

ing a benefit for a long period depend on keeping Sector II's coverage small.

Yet another aspect of the problem of choosing the position of the demarcation line has to be considered as soon as we drop one of the simplifying assumptions made so far. In reality it will never be true that the whole of the native labour force can "qualify" for entry into Sector I. Some part will always be unable to do so — even allowing for some reduction in standards of efficiency (36) — and will be obliged to content itself with jobs in Sector II. This part will, of course, be harmed by the effect of immigration in keeping Sector-II rates of pay lower than they would otherwise be. How large this losing part is in relation to the whole depends on where the demarcation line is drawn. The smaller is the variety of industries and occupations embraced by Sector I, the smaller will be the proportion of the native labour force that can qualify for entry into some part or other of that sector. (But the larger, of course, will be the gain made by each individual worker in the sector) (37).

The concept of the "proper" demarcation line in the sense of the line that would give the maximum benefit to the native labour force cannot, then, be unequivocally defined. The choice of this line affects the proportions of the native labour force that are benefitted and harmed, respectively, over the "short run"; and it affects the length of this run. There is no division that can, even conceptually, be called the "right" one, in the sense that it represents an absolute optimum. The most that we can say is that it is theoretically possible to choose a demarcation line such as will maximize the benefit enjoyed by a major part of the native labour force, when this "major" part is understood to comprise some specified proportion of the whole, and when the period for which the benefit to this part (and the harm to the minor part) can be expected to last has some specified duration.

(36) Cf. p. 19 above.

(37) The smaller is the number of workers employed in Sector I, the smaller will be the number of foreign workers that must be drawn into Sector II in order to achieve a given relative wage-effect, and the weaker will be the associated general wage-effect; and the higher, therefore, will be the real wage which those workers who are able to enter Sector I can command.

The choice between the many possible demarcation lines, corresponding to different magnitudes for these proportions and this period, is arbitrary.

Finally, we should emphasize once again the importance of keeping the demarcation line a strict one. Allowing foreign labour to spill over from the poorly-paid to the well-paid sector means rendering the distinction between selective and unselective immigration an unclear one. It means allowing both types of immigration to take place at once; and part at least of the benefit of the immigration to the native labour force will then be lost. It is, of course, immaterial, so far as the consequences are concerned, whether the foreign workers admitted to the well-paid sector are recruited directly for jobs in that sector, or whether they are workers originally recruited for jobs in the poorly-paid sector but subsequently permitted, if qualified, to shift over. There is, however, this difference: though it will be easy to prevent direct recruitment, it may be difficult or impossible to prevent shifting. Indeed, as was remarked already, foreign workers may in many instances be willing to enter a particular job initially only on condition that they will be free to change their job after a certain period of service. Increased liberality in this respect will become necessary as employment conditions in the workers' own countries improve.

In terms of the diagram on p. 26 above, the effect of admitting foreign workers to Sector I will be to shift the whole I-I curve downwards, and the more so the larger is the number admitted, and to shift the II-II curve either upwards or downwards, according to how strong the relative wage-effect — now favouring Sector II instead of Sector I — is in relation to the general wage-effect. The maximum real wage which the workers in Sector I can achieve is obviously reduced.

As we have said, some spill-over of foreign labour into Sector I will usually be automatic. It will be an unavoidable consequence, that is to say, of having admitted foreign labour originally into Sector II. And since it may begin to occur after only a comparatively short delay from the time when the immigration process started, we must treat it as a factor which makes the amount of immigration into Sector II that is truly "optimum" for any unit-period smaller than would be the case if we were really justified in ignoring this after-effect.

8. The Effect on the External Balance of Payments

Once we drop the artificial assumption of an economy that is closed to international commodity trade, we have to introduce the necessity of maintaining equilibrium in the international balance of payments. This necessity imposes an additional limitation on the maximum wage level that can be reached by the native labour force — or the favoured part of it — in a country which is following a wage policy based on the system of selective immigration described in the preceding sections.

Suppose that one country is alone in pursuing such a policy; and suppose that the money wage level for Sector-I jobs is pushed out of line with the levels ruling for the same jobs in other countries. This movement will tend, through its effect on domestic costs and prices, to restrict the foreign demand for goods produced largely, or entirely, by Sector-I labour, and to raise the domestic demand for similar goods imported from abroad. To some extent, however, the consequences for the country's balance of payments will be mitigated by the effect of the relatively low wage level for Sector-II labour in raising the exports of goods produced largely, or entirely, with such labour, and lowering the imports of such goods (38). A point to notice here is that the adverse effect on the country's balance of payments will in these circumstances be less serious than it would have been had the same high money wage level as is in our example confined to Sector I been extended to the entire economy. In other words, a country where the level of negotiated wage rates in Sector I is too high, or is rising too fast, may — for a time at least partly — compensate for this by following a policy of selective immigration, which renders the average level of money wages in the two sectors combined lower than it would be in the absence of such immigration. The country may in this way be able to attenuate the inflationary pressure on its cost and price level, and the consequent balance of payments difficulties. (Selective immigration may have been of some slight help in this connection in Great Britain).

In practice, moreover, a country is unlikely to be alone in following a policy of selective immigration. The extent to which one

(38) The competition between foreign and domestic goods acts, of course, as a factor limiting the extent to which the ratio between the Sector-I and Sector-II wage levels in the country concerned can be moved in favour of the former by the process described in Section 6 above.

country can go in pushing up its Sector-I wage level without running into balance of payments difficulties may be considerably increased if numerous other countries are following a similar policy. There may, that is to say, develop a widely extended international system in which the Sector Is — more or less similarly constituted — of the various countries trade with each other on neither less nor more favourable terms than before, but in which each country's Sector I benefits from the advantageous terms on which it can trade with its own, and other countries' Sector IIs.

9. Policy Aims in Practice

I do not want to suggest that the native labour force in any of the Western European countries to which immigration has recently taken place has deliberately sought to exploit the possibilities of the situation which I have described in the preceding three sections, or that its government has tried to do so on its behalf. The aim of wage policy in these countries has obviously not been that of maximizing the real wage level of the native labour force or of a "major" part of it. We shall come nearer the truth if we assume that the aim has been:

(a) To keep the relative wage structure the same as it was in a certain "base" year. In the terms of our simplified model, this means keeping constant the ratio of the Sector-I to the Sector-II wage level (the coverage of the sectors being given) (39).

(b) To achieve in each successive unit-period the maximum *general* wage level — and therefore the maximum wage level in each sector — that is compatible with (a).

How does this double objective compare with that of seeking to maximize the Sector-I wage level? Again it will be helpful to refer to the diagram on p. 26 above.

It is immediately clear from that diagram that, in any period, the one objective would coincide with the other only by chance,

(39) Other variants of this type of policy may be relevant. For example, we might allow for new or wider "productivity differentials" being claimed and won by workers in certain industries. This would mean raising the ratio of the Sector-I to the Sector-II wage level. But it would also mean changing the confines of the two sectors, some jobs moving from the "poorly-paid" sector to the "well-paid" one, and vice versa.

i.e. if the "base" wage ratio, R , as we may call it, happened to be equal to the ratio $\frac{OW_1}{OW_2}$ at which OW_1 was maximized, or equal,

that is, to the ratio that was the optimum one from the point of view of Sector-I workers. In fact R might be smaller or larger than this optimum ratio. Into the diagram have been drawn two "constant ratio curves" linked to the curve II-II. On each such curve, that is to say, each value of the ordinate is a given percentage above the value of the corresponding ordinate of the II-II curve. One of these constant ratio curves, r_1r_1 , represents a value for R that is smaller than the "optimum" ratio; and the other, r_2r_2 , a value that is larger. The cutting point of the constant ratio curve with the I-I curve gives us the maximum Sector-I wage that is obtainable while preserving the given ratio R , and the point vertically underneath on the II-II curve gives us the corresponding maximum Sector-II wage. For the r_1r_1 curve the Sector-I wage is thus OW_3 and the Sector-II wage OW_4 . A similar procedure may be applied to the r_2r_2 curve, and all other curves representing ratios different from these (40). We see that if R is smaller than the "optimum" ratio, it will be preserved, when the condition that the general wage level should reach the maximum that is compatible with constancy of R is also satisfied (41), with a foreign labour force Op (in Sector II) smaller than the "optimum", Om . The absolute wage level in Sector I will, of course, be lower than it would be with the "optimum" foreign labour force, but the absolute wage level in Sector II will be *higher*. If, on the other hand, R is larger than the "optimum" ratio (but not "too large"), it will be attained with a foreign labour force which is larger than Om . If it is "too large" it cannot, of course, be reached at all, the reason being that the SS curve is too high in relation to the I-I and II-II curves (42). This case of an R larger than the "optimum" is relevant *only* when the I-I curve is not continuously rising over

(40) Any cutting point (or point of tangency) on the I-I curve which corresponds to a point on the II-II curve lying to the right of the cutting point between this and the SS curve is, of course, irrelevant.

(41) We assume, as before (p. 29 above), that no allowance is made in the present for the effect which the immigration that takes place now will have on the general wage levels of future periods, owing to the "automatic spill-over" into Sector I of part of the foreign labour. In practice, this consideration has surely not affected policy.

(42) Cf. n. 40.

the relevant range, since if it were, the "optimum" ratio would also be the largest obtainable. In this case the absolute wage level in *both* sectors is lower than it would be with the "optimum" foreign labour force. In other words, the downward pull on the general wage level entailed in preserving the ratio R is greater when R is "relatively large" (i.e. larger than the "optimum") than when it is "relatively small".

Other solutions may exist to the problem of keeping R constant at any given figure, provided we abandon the subordinate aim of maximizing the general wage level. And if we do this, we come closer, I think, to describing what has been the effect, if not the outward intention, of the policy that has actually been followed, by some of the countries, in very recent years (i.e. as they passed into what I referred to earlier as the "second phase" of the immigration process).

These solutions entail importing foreign labour into Sector I as well as Sector II. We can see from the diagram, and from imagining the effect of different levels of immigration into Sector I on the positions of the I-I and II-II curves, that it may be possible to preserve the constant R in this manner. It will be possible when R is "relatively small", but also (if the I-I curve is not continuously rising) when R is "relatively large" (but not "too large"). And in some cases there may be a multiplicity of solutions, involving different total amounts of immigration into the two sectors combined. But the adoption of any such solution will reduce the absolute wage levels of both sectors, and hence the general wage level, below what they would be with the solution based on the importation of foreign labour exclusively into Sector II. And the reduction in the general wage level will be the greater the bigger is the extra amount of immigration involved. The downward pull on that wage level is in all such cases increased beyond the unavoidable minimum connected with keeping R constant.

We need now to consider in more detail the distinction drawn earlier (43) between the "first phase" of the process of importing foreign labour, and the "second phase" which might, in certain circumstances, follow.

The situation explicitly depicted in our diagram relates to the time when the whole of the qualified part of the native labour force

(43) Cf. p. 19.

has already been absorbed by Sector I. It would, however, be a simple enough matter to adapt the diagram to show what happened in each successive unit-period (under the same double assumption made in this section concerning wage policy) during the phase when some part of the native labour force was in each such period still "shifting out" of Sector II into Sector I. The point we should notice is that once that phase is over, the relative wage-effect of continuing to add to the foreign labour force at much the same pace as before will be different from what it was *during* that phase. During it the importation period by period of quite large additional contingents of foreign labour into Sector II was necessary in order continually to restore the proportions between the supplies of labour available to the two sectors to some rough (44) equivalence with the proportions that had prevailed in the "base" period, and hence to counteract the tendency which would otherwise have existed for the wage ratio to fall below R. But once this shifting-out process has been completed, the size of the new contingent of foreign labour that needs to be imported in each period, in order to serve the same purpose as before, will most likely be sharply reduced. It now has to be big enough merely to counterbalance the natural increment in the native labour force seeking employment in Sector I *plus* that part of the foreign labour force which becomes eligible for shifting over to that sector in the period (i.e. the "automatic spill-over" of foreign labour from Sector II). This part will normally be small at this stage, because much of the foreign labour is unqualified to shift and/or is not yet legally eligible.

If in these circumstances the rate of importation of foreign labour into Sector II is not substantially reduced below the previous level, the effect will now be to "distort" the proportions between the supplies of Sector-II and Sector-I labour in the opposite direction to what was in danger of happening previously. And there will be a tendency towards a *rise* in the wage ratio above R, *unless* this tendency is counteracted by importing foreign labour into Sector I as well, and thus initiating what we called the "second phase" of the immigration process. (The effect is much the same, of course, if this labour, instead of being imported directly into

(44) Even under the assumption of constant technology, it will not, of course, be perfect equivalence that is required, since the relative demands for different types of labour will doubtless change somewhat as the size of the total labour force (domestic plus foreign) grows.

Sector I, consists of workers already in the country who are permitted to shift from Sector II to Sector I before the agreed term, and in this sense "unnecessarily").

We remarked earlier that if the immigration process does enter this second phase, it henceforth takes place at the cost of keeping the general wage level in the country concerned from rising as rapidly as it might (even under the condition that the relative wage structure must be kept unchanged), given the current rate of capital accumulation and other circumstances. The immigration that was originally selective now becomes partly unselective.

A few words of warning are in order here concerning the picture that will be given us, during such a two-phase immigration process, by the statistics of wage movements. This picture may be deceptive unless we are aware of the relationships described above. Even when the economy gets into the second phase, the general real wage level may appear, under what are approximately unchanged conditions as regards the rate of capital accumulation, etc., to be rising about as fast as it did in the first phase. And the movement may, for this reason, be regarded as "satisfactory" by the usual statistical standards. If we look closer, however, what we see is this.

In the first phase, the sacrifice of a certain part of the maximum possible rise in the general wage level (due to the downward pull exerted on this by the immigration of the period) was the price paid for two benefits to the "qualified" members of the native labour force:

(a) it allowed the group which was employed in Sector I from the start to retain its initial relative wage advantage with respect to Sector II (or possibly even to improve it) (45); and

(b) it allowed the group which moved into Sector I from Sector II during the period to make an extra absolute gain in wages, not shown by the statistics (but corresponding on the average to the relative wage advantage of one sector over the other), by virtue of their "promotion" from one sector to the other.

The total absolute gain in wages of this second group is thus larger than appears from the rise in the general wage level, and so therefore is the average gain of the native labour force as a whole.

(45) Cf. n. 39 on p. 35 above.

In the second phase, the downward pull on the general wage level exercised by the same rate of immigration as before no longer has the same offsets from the point of view of the native labour force. But it would now be possible, were the rate of immigration reduced to the strict minimum necessary to keep the relative wage structure unchanged, to achieve a faster rate of increase in the general wage level than before, and in this way to compensate for the cessation of that increase in the average level of wages of the native labour force which was previously due to the "promotion" factor. Only if the general wage level did in fact now rise faster than before would the "average member" of the native labour force be improving his position as fast as previously.

It is true, nonetheless, that even when a country has entered the "second phase", so that both kinds of immigration — unselective as well as selective — are henceforth taking place at once, the native labour force (or the major part of it) may still be drawing some benefit from the presence in its country of the foreign labour force, provided the "selective element" in that labour force is the preponderant one. For the effect which the employment of a small amount of foreign labour in the better-paid sector has in holding down the absolute wage level there may be more than offset, for the native labour group concerned, by the effect which the employment of a much larger amount in the poorly-paid sector has in keeping many goods and services which this group consumes cheap in relation to its wage. Again, however, it would be wrong to conclude that the policy of any of the Western European countries that have been importing foreign labour since the war has been inspired by a calculated search for this effect. If such an effect has in fact been achieved it has come about more by chance than by design.

We must, I think, take it that over most of the period the real motivating forces behind the policy have been the two already mentioned. One was the desire to avoid relative wage adjustments that might jeopardize the success of the efforts to prevent the general wage level from rising at an inflationary pace. The other was the widespread conviction that the apparent "shortage of labour" was due to "exceptional boom conditions". During the past year or so, some circles in Western Germany and Switzerland were, however, advancing a third reason. This was the argument that the

importation of foreign labour into all parts of the economy was necessary in order to prevent wages generally from rising "too fast", or, that is, "faster than productivity", and hence leading to inflation. An immigration policy based on this argument is likely to be self-defeating. For the argument overlooks the point that the rate at which productivity per head of the labour force in a country can rise will, in the "normal" case of imperfectly elastic supplies of capital and land, be reduced by increasing the rate at which the labour force grows (46).

10. The Long-Run Consequences of Selective Immigration

The argument of the preceding sections may be summed up by saying that the native labour force (or a majority of its members) in any of the richer, and socially more advanced countries may, for a period of many years, benefit from the importation of foreign workers, who are ready to do certain jobs at rates of pay lower than would, in their absence, have to be granted to native workers for doing the same jobs. In this way the native labour forces of such countries may profit from two situations, so long as they last, on the labour markets of the poorer countries. One is unemployment, and wage levels that are low by international standards, even among the relatively well-educated, and well-trained workers in those countries. The other is the still large supply of poorly-educated workers competing for the very limited range of jobs for which they are able to qualify, and the tendency, therefore, for the rates of pay which they can command in their own countries to be low relatively as well as absolutely. So long as big international differences in standards of education and labour training persist, international movements of labour perform this function among others: they serve to even up, as between different countries, the otherwise very uneven ratios of educated to uneducated, and of skilled to unskilled workers. They are a way of sharing round the reserves of cheap labour that still remain (47).

(46) Cf. pp. 63-4. below.

(47) In the countries of emigration, the better qualified people, employed in the better-paid jobs, are in any case benefitting from the relatively low rates of pay of the large supplies of poorly-qualified people in their countries. But emigration to other countries of part of this "surplus" of cheap labour helps to raise the relative wage level of that labour at home.

Over the longer run, however, the effects of selective immigration are in many ways the opposite of those achieved in the short run.

The importation of a large foreign labour force, and the consequent broadening of the whole employment base in the country concerned, leads to the building up of an industrial structure which can henceforth be maintained only if the foreign workers are permanently integrated into the country's economy. The withdrawal of any considerable part of them would create a problem of overall redimensioning of the economy such as would entail big capital losses, and a shock to confidence. Thus, for all practical purposes, the expansion process based on the importation of foreign labour is irreversible.

On the other hand, making the foreign workers a permanent part of the country's labour force will, after a while, almost inevitably mean assimilating them. It will mean, that is to say, giving them the same rights as native workers to choose and change their jobs, and to have their families living with them, and the same educational facilities for their children.

Assimilation is equivalent to converting what was originally selective immigration into the unselective variety. For even if only a relatively small part of the first generation of immigrants is capable of qualifying for what we have called "Sector-I jobs", the situation will be different among their children. In the long run, the part of the foreign labour force which, in the terminology used previously, automatically spills over into Sector I inevitably becomes a very much larger proportion of the whole than it was in the short run. It will thus be necessary, in the absence of changes of the type to which I shall refer in the next section, to draw in fresh contingents of unassimilated foreign workers, if the old relative wage structure is still to be preserved. The immigration process must be resumed at something like its original pace. As we have remarked, however, its continuation may eventually become highly "unprofitable" from the point of view of the native labour force, if increasing population density produces a big rise in land values and rents. What is more, new immigrants may eventually become impossible to obtain on terms which allow the old relative wage structure to be preserved. The process of adjusting relative wage rates then becomes inescapable. The native labour force, or

the major part of it, will thus have benefitted from the relative wage-effect of immigration only temporarily, whereas the general wage level will be affected permanently. For even if the immigrants, or their descendants, themselves in effect become after a time — and it may be a long time — the accumulators of the capital they use, they cannot provide their own supply of land. In the end, then, the position of the native labour force, or of future generations thereof, will be worse than it would have been had no foreign labour been drawn in. Thus, even when the immigration is "selective", the traditional view that immigration is against the interests of the native labour force regains its validity in the "long" run; but, as already remarked, the "short" run, during which "selective" immigration may be of considerable advantage to the greater part of the native labour force may be quite long by the reckoning of most mortals.

Historically, selective immigration, in the sense in which we have been using that term, is not a new phenomenon. In some of the countries of large-scale immigration in the nineteenth and early twentieth centuries, the greater part of the immigrants originally had, by reason of their poorer education, and their language difficulties, etc., a "natural inferiority" compared with native-born citizens. This automatically rendered them ineligible for a great many occupations, and restricted them to others. The native-born citizens of the countries concerned long benefitted, in consequence, from the continual influx of new contingents of cheap foreign labour to do certain jobs. The newcomers were, however, accepted from the start as permanent immigrants, whose children at least would have a chance of passing on to the better-paid occupations. The citizens of these countries deliberately chose — in circumstances which admittedly made it easy for them to be generous — to face the full long-term consequences of immigration. Equally deliberately they later set limits on the numbers of new immigrants they were willing to admit, and adopted certain safeguards against the creation of social and political frictions.

The "Classical" conclusions as to who benefits from immigration hold in respect of other groups than labour with perhaps less need for qualification. Those owners of capital who, for various reasons connected with political and economic security, have a distinct preference, at equal current rates of return, for investing

in the countries concerned rather than in others, benefit in the short run, and perhaps also in the long, even if not in the very long. Landowners in those countries benefit without any doubt in both long and short runs. And in the situation by which most countries in North West Europe are at present confronted of an already high population density, the landowner's benefit is likely to be particularly large.

11. Prospects Raised by Technological Change

In conclusion of this first part of my article, a question must be raised which may already have been in the minds of readers who have got this far. Is not the present trend of technological change such that, in a not far-distant future, it will have altered the relative demands for different grades of labour in a way which more or less offsets the changes in the relative supplies due to recent and future advances in levels of education and training, and will hence provide a solution to at least part (48) of the problem we have been discussing? If the answer were in the affirmative, we might conclude that the importation of foreign labour was in truth satisfying what was for the most part a purely temporary need, and we might judge it an advantage to have thus avoided making relative wage adjustments which would have had to be reversed a little later on.

Two aspects of current technological progress are relevant to an attempt to answer this question. First, automation is lowering the demand for unskilled and semi-skilled labour, and raising the demand for workers with highly technical skills, as well as for highly-trained office staff. In the United States this development is held responsible for the present distribution of unemployment in that country. The rate of unemployment is very much higher among unskilled workers than among other groups; and while many people are jobless, unfilled vacancies exist in sectors demanding workers with scarce skills. In the future a similar kind of shift on the demand side of the labour market may perhaps become

(48) It would not presumably solve the problem raised by the awarding of productivity differentials.

increasingly marked in the Western European countries of which we have been speaking. And it is conceivable that it may assume dimensions large enough to bring to an end that tendency for the demand for unskilled and semi-skilled labour to exceed the domestic supply, at current relative wage rates, which has constituted part, but only part, of the problem we have been investigating. What seems less likely is that it will solve another part of that problem, namely the tendency towards a maldistribution of the *skilled* labour force between the various types of skill.

The second aspect is the large amount of job-changing inevitably associated with a very rapid rate of technological change, that is continually rendering some skills obsolete and creating the need for entirely new ones. This is causing increasing emphasis to be placed on the necessity for labour training methods which will make workers more mobile as between jobs. What we may wonder, however, is this. In an economy in which the very nature of many of the jobs is constantly changing, will there not be a special need for relative wage flexibility? May not such circumstances give added point to the plea, quoted above (49), of the Cohen Council?

PART II

THE SWISS CASE

The country which is at present most acutely aware of the problems raised by a dependency on a large foreign labour force is Switzerland. Her case also provides us with the best illustration, so far, of many of the points made in Part I of this article. It has, obviously, many features which are not exactly repeated in the cases of other countries. Nonetheless I believe that there is much common ground.

This second part of my article will be devoted to a brief analysis of the available material — statistical and other — relating to the Swiss case.

(49) Cf. p. 14.

1. Characteristics of the Foreign Labour Force

Two sets of official statistics are published concerning the numbers of foreign workers. The first set is based on the police records. It relates to workers who are "subject to control", or, that is, who possess only a temporary work permit (*Aufenthaltsbewilligung*) and are therefore obliged to report regularly to the police. These statistics cover all branches of activity. But by definition they exclude foreign workers who have been released from police control, as the pre-condition for their being allowed to make application to the relevant Cantonal authorities for a permanent residence permit (*Niederlassungsbewilligung*).

Such a permit is usually obtainable only after the foreign worker has had at least ten years' "uninterrupted" residence in Switzerland. This requirement implies that he should have had non-seasonal status previously. Permission to bring in wives and children is normally granted after three years' uninterrupted residence, and therefore, again, only to those with non-seasonal status. Once acquired, the permanent residence permit allows the worker to take any employment (including self-employment) he may choose, and to change his job as often as he likes. For most practical purposes he is thus assimilated to a Swiss worker.

This status has, given the eligibility conditions, been acquired so far by only a very small proportion of the foreign workers at present in Switzerland. In each of the years 1959 and 1960, for example, the number of permanent residence permits granted to gainfully occupied foreigners was only about 4,000, and the number granted to family dependents under 3,000. In 1961 the corresponding figures were 6,900 and 3,900 respectively. During the entire period of thirteen years from 1949 to 1961 the total number of persons released from police control was about 84,000. Statistics of how many actually reached the stage of acquiring a permanent residence permit are not available for years prior to 1959. And even amongst those that did acquire it, there must have been some "wastage" due to deaths and repatriations. Thus we do not know exactly how many of the people "released from control" are still in the country, and still less how many foreign workers there are with the status of permanent residents. But it is clear that, in

Switzerland's case, what we called above (50) the "automatic spillover of foreign workers from Sector-II to Sector-I jobs" must have been slow.

The second set of statistics covers all persons employed in establishments, and jobs within those establishments, of a nature such as to bring them under the regulations concerning inspection imposed by the Federal Factory Laws (51). These employment figures are collected once yearly, and specify the numbers of foreign workers separately from those of Swiss workers. The coverage of the Factory Statistics is by definition limited. They take in a smaller part of the foreign labour force than do the Police Statistics. In one respect, however, they are more comprehensive than the latter, since they include foreigners with permanent residence permits. In 1961, however, only 17,400 of the foreign workers in the establishments and activities covered by the Factory Statistics were in possession of permanent permits, as against 178,800 with temporary ones. In addition there were 21,000 "frontier commuters". The proportion of the first group in the total was thus under 10 per cent.

The most nearly complete picture of the numerical importance of the foreign labour force is thus that given by the Police Statistics. (See Table 1.) Prior to 1955 these were made up only once yearly, in the month of February, which represents a seasonal low for employment in at least two important branches, namely construction and agriculture. According to the February figures, the number of foreign workers subject to control rose, in the twelve years between 1950 and 1962, from 90,000 to 446,000, or, that is to say, nearly quintupled. Since 1955 figures have also been compiled for the month of August, which represents a seasonal peak for employment in the two branches mentioned above. These August figures show that the number of foreign workers subject to control rose in the seven years between 1955 and 1962 from 271,000 to 645,000, or, that is to say, more than doubled. The tendency towards an increase seems to have been almost continuous throughout the whole period of twelve years. Only in 1958 and 1959 did the figures drop back, and even then they did so only very slightly.

(50) Cf. p. 17.

(51) The distinction between jobs that do, and jobs that do not, come under the regulations is not always a very clear one. For this and other reasons, the figures are only roughly comparable from year to year. Obviously, also, they cover only a part (probably a little less than two-thirds) of total employment in the industries to which they relate.

TABLE 1

POLICE STATISTICS: FOREIGN WORKERS SUBJECTS TO CONTROL,
BY NATIONALITY AND SEX
(Thousands)

Date	Italians	Ger- mans	Aus- trians	Others	Total	Men	Women	Women as per cent of total
February								
1949	n. a.	n. a.	n. a.	n. a.	106.1	39.2	66.8	63.0
1950	54.0	12.9	11.8	11.4	90.1	28.5	61.7	68.5
1955	77.9	45.3	30.9	12.1	166.2	70.5	95.7	57.6
1960	158.8	66.0	28.6	21.9	275.3	149.6	125.7	45.7
1961	214.0	68.8	29.2	36.9	348.9	204.5	144.4	41.4
1962	285.2	72.1	27.6	60.7	445.6	271.4	174.2	39.1
August								
1955	162.3	59.2	35.4	14.2	271.1	160.3	110.9	40.8
1956	206.9	69.2	33.9	16.1	326.1	203.5	122.6	37.6
1957	247.8	77.8	33.7	17.8	377.1	239.6	137.5	36.5
1958	235.8	76.2	32.7	18.7	363.4	225.9	137.5	37.8
1959	242.8	71.4	30.4	20.2	364.8	232.3	132.5	31.0
1960	303.1	72.4	31.6	28.4	435.5	288.4	147.1	33.8
1961	392.1	73.5	30.1	52.6	548.3	374.8	173.5	31.6
1962	454.4 ¹	77.8 ²	29.0	83.5 ³	644.7	443.1	201.6	31.3

¹ Of whom 123.4 were women.

² Of whom 34.3 were women.

³ Of whom 44.2 were Spaniards.

Source: *Die Volkswirtschaft* (Bern, monthly).

Since August 1956, when the number of seasonal workers was shown separate from that of non-seasonal workers for the first time, 30 per cent, or a little more, of all the foreign workers registered by the Police Statistics have belonged (at the August date) to the former category. In August 1962, 7 per cent of the total were frontier commuters. (See Table 2 below.)

Throughout the period by far the greater part of the foreign workers have been Italians. In February 1950 they represented 60 per cent of the total, and in August 1962 70 per cent. At the latter date their number had reached 454,000, of whom 123,000 were women. The next most important national groups have been Germans and, until recently, Austrians. Towards the end of the period,

TABLE 2

POLICE STATISTICS: FOREIGN WORKERS SUBJECT TO CONTROL,
BY OCCUPATIONAL GROUP AND STATUS
(Thousands)

Group	February					August									
	1950	1955	1960	1961	1962	1955	1956	1957	1958	1959	1960	1961	1962		
Construction			20.5	31.5	44.9					82.7	107.0	142.3	162.8		
Clay, stone and glass ¹	1.8	8.3		5.2	7.1	9.8	61.5	83.1	91.8	77.8		6.7	8.9	11.2	14.1
Hotels and catering	16.7	33.8	49.5	53.0	59.1	47.0	50.8	56.4	59.1	60.5	62.3	66.9	71.1		
Metal-working and machinery	7.2	22.9	52.8	77.4	106.4	29.9	41.4	57.3	55.4	50.2	66.5	97.3	121.7		
Domestic service . .	30.7	38.0	29.4	28.4	28.0	38.9	38.0	35.7	34.1	31.5	30.3	29.1	28.8		
Agriculture and horticulture	9.3	13.9	12.8	10.8	10.0	32.4	34.1	32.2	32.1	29.6	27.8	24.6	22.3		
Clothing and cleaning	4.8	9.2	23.1	28.1	36.3	10.4	13.5	18.1	19.1	21.2	26.4	33.0	39.8		
Textiles	5.6	11.5	19.5	25.5	29.7	12.2	16.0	20.9	19.9	17.4	23.9	29.7	33.6		
Wood and cork . .	0.9 ³	3.6 ³	9.0	13.6	18.4	6.0 ³	8.2	10.2	9.5	9.6	13.8	19.7	24.5		
Food and allied ² .	1.6	5.5	9.4	12.2	16.2	7.0	8.7	10.7	11.5	10.2	11.8	12.2	20.6		
Technical and liberal professions	4.0 ⁴	7.3 ⁴	16.3	19.7	23.1	8.3 ⁴	9.7	11.3	12.5	16.0	18.1	21.9	(a)		
Trade and offices .	2.2	2.8	8.4	11.9	17.4	2.9	4.0	5.9	7.2	7.8	10.2	14.8	20.2		
Others	3.3	9.4	19.4	28.7	46.3	14.6	18.6	26.6	25.2	21.4	28.5	45.6	(a)		
Total	90.1	166.2	275.3	348.9	445.6	271.1	326.1	377.1	363.4	364.8	435.5	548.3	644.7		
Status															
Seasonal	81.6	143.4	27.4	37.2	51.6	240.8	108.1	120.6	105.1	114.1	139.5	173.5	194.1		
Non-seasonal			214.3	275.1	355.2		181.1	215.4	220.7	215.8	256.5	332.4	405.7		
Frontier commuters	8.5	22.8	33.6	36.7	38.8	30.3	36.9	41.1	37.6	34.9	39.4	42.5	44.9		

¹ "Glass" is included here only after 1955. See note ³.

² Includes "drink and tobacco".

³ In these years includes "glass", which in later years is included under "clay, stone and glass".

⁴ "Liberal professions" only.

(a) Not yet separately available. For "technical and liberal professions" plus "others" the figure was 75.2.

Source: *Die Volkswirtschaft*; and *Statistisches Jahrbuch der Schweiz* (Bern).

however, Spaniards had become the third largest group. In August 1962 they numbered over 44,000. Of the whole number of foreign workers, 31 per cent were, at that date, women; and in earlier years the proportion had been still larger.

The Police Statistics also classify the foreign workers by occupational groups. (See Table 2.) The industry which has, throughout, been the largest employer of foreign workers (except when it was seasonally inactive) is construction. In August 1962 this branch accounted for one quarter of the whole number of foreign workers. In the early 1950's the next two most important branches were domestic service and the hotel and catering business, both of them branches in which women are preponderant. The first of these had, however, become less important in the later years, when "cheap" foreign labour for this sector was becoming increasingly difficult to get. Two other branches which are pre-eminently women's trades, namely the textile and clothing industries, have taken on increasing numbers of foreign workers. Agriculture too has depended heavily on foreign labour. Here again, however, there has been a falling back from the peak figures reached in the mid-1950's. In this sector, too, increasing difficulty has been experienced in obtaining the desired number of foreign workers. Wood-working, food-processing, the processing of building materials, and "trade and offices", had all become substantial employers of foreign labour by 1962. By that time, however, the second biggest occupational group (construction still being the first) was metal-working and engineering. In August 1962 19 per cent of the total number of foreign workers belonged to this group as against 11 per cent in August 1955.

We lack figures concerning how the foreigners were divided between the skilled and unskilled (or semi-skilled) grades, or between workers and salaried employees. It is reported, however, that a high proportion belong to the group of so-called "Angelernte" (or semi-skilled), i.e. to those doing jobs for which they had no previous training but which they could be taught to do on the spot in a very brief instruction course.

As regards the occupational distribution of the foreign labour force, the Swiss case has many similarities with the German, but also some differences (52). In September 1962, construction took in

(52) One of the factors affecting the distribution at any given date is the residence period after which workers originally recruited for a given job become eligible to shift to another job of their own choice. This period is much shorter in Germany than in Switzerland.

Western Germany's case only the second place. The first belonged to the metal-working and engineering branch. This fact is doubtless explained by the much greater importance in Western Germany of the steel industry, with its large demand for workers to do disagreeable jobs. Mining occupied, for the same reason obviously, a fairly important position (53). In France the sectors employing the largest numbers of foreign workers at present are probably (54): agriculture, construction, metal-working, mining, and domestic and other services, in that order.

It may be noticed, too, that Western Germany, as well as some of the other countries (55), have been on both sides of the foreign labour market. Although a big importer of such labour, she has also been — on a smaller scale — an exporter. A fair proportion of the Germans working abroad are frontier commuters. And a large proportion are women. For example, Germans (male and female) commuting to Switzerland numbered in August 1962 15,500, out of a total German labour force working in Switzerland of 77,700. And out of this latter total 34,300 (or 44 per cent) were women. At the same time the proportion of women (18 per cent) in the total foreign labour force working inside Western Germany was small compared with the corresponding figure (31 per cent) in Switzerland. For the time being at least, Western Germany was evidently better supplied, in relation to her demand, with certain types of "unqualified" female labour than Switzerland. Western Germany had imported a fair number of female workers into her textile industry; but she had also exported female workers, especially for domestic service and the clothing industry, and especially to Switzerland.

(53) At the end of September 1962, Western Germany's foreign labour force was distributed among the various branches of activity as follows (in thousands): agriculture, horticulture, forestry, hunting and fishing 10.4; mining, quarrying and mineral processing 44.3; metal-working and engineering 215.5; textiles 31.1; chemicals 17.4; other manufacturing 107.1; construction 172.8; wholesale and retail trade 28.6; hotels and catering 19.3; transport and communications 18.3; other activities 41.1; total 705.9. (Source: *Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, Nuremberg).

(54) We are here using estimates based, in the case of "permanent" workers, on the cumulative totals of arrivals. See p. 4 above.

(55) Even the Netherlands which, because of its relatively low general wage level has been mainly on the export side in the recent labour movements (supplying substantial contingents of workers to Belgium and Western Germany), has been importing foreign labour to do certain jobs (on the railways, in construction, and in hospitals).

2. The Wage Structure

For reasons too well-known to require comment here, the wages and earnings data are, in Switzerland as elsewhere, imperfect. There is no strict comparability from occupation to occupation, from grade to grade within an occupation, or from year to year. Moreover, the figures relate to only one pay period in the year, though this circumstance is probably not a very serious source of unrepresentativeness, as may be judged from the fact that the pattern of rates in neighbouring years looks very similar from one year to the other. Despite these defects, the figures in Tables 3 and 4 doubtless give us, however, a fair indication of a number of tendencies in those branches of activity which they cover. We may notice particularly the following:

1. Between 1949 and 1961, the percentage rise in average hourly earnings was about the same for semi- and un-skilled male workers, who are treated statistically as a single category, as for skilled male workers. The rise for women workers seems to have been slightly smaller than that for men; and the rise in the average monthly salaries of the white-collared groups of both sexes slightly smaller than that in the average hourly earnings of workers of both sexes. The small differences here involved may, however, be insignificant in view of the imperfect comparability of the underlying data (56). Evidently there did not occur a continuation of the process of adjustment of relative wage positions which had characterised the period between 1939 and 1949. During that period the gain in hourly earnings (83 per cent) made by skilled male workers in the branches covered was perceptibly smaller than that (98 per cent) made by semi- and un-skilled male workers; and the gain made by both groups of male workers very much smaller than that (123 per cent) made by women workers. The monthly salaries of the white-collared group also rose by distinctly less than the hourly earnings of workers. (See Table 3 below.)

2. Throughout the period since 1949 average hourly rates of pay for the semi- and un-skilled grades among male workers — we cannot separate these two grades — have been a little over 80 per

(56) For instance, no allowance has been made for a shortening of hours in the case of the white-collared group.

TABLE 3
INDICES OF AVERAGE¹ HOURLY EARNINGS OF WORKERS,
AND MONTHLY EARNINGS OF SALARIED EMPLOYEES

Category and branch	Oct.	Oct.	Oct.	Oct.	Oct.	Oct.
	1949	1960	1961	1959	1960	1961
	(June 1939=100)			(Oct. 1949=100)		
1. Workers						
Manufacturing						
Textiles	224	302	319	128	134	142
Clothing and accessories	220	300	318	131	137	145
Food and allied	192	273	288	136	143	151
Chemicals ²	202	279	292	129	137	144
Paper and leather	213	300	320	134	140	149
Printing ²	178	264	271	139	148	152
Wood	204	284	305	131	139	149
Metal-working and machinery ²	193	281	303	137	145	156
Watches and jewellery ²	213	295	313	132	138	146
Clay and stone	206	285	307	131	138	149
Other ²	182	251	269	130	138	147
Trade	182	250	265	130	137	145
Private transport undertakings	176	241	253	133	138	144
Total	202	285	304	133	140	149
Skilled male workers	183	259	276	133	140	150
Semi- and un-skilled male workers	198	282	299	134	141	149
Women	223	307	327	131	137	146
Juveniles: ⁴ male	240	353	396	134	147	165
female	261	365	392	130	140	150
2. Salaried staff⁵	180	248	261	133	138	145
Men	176	241	253	132	137	144
Women	187	260	273	133	139	146
3. Workers in construction⁶						
Builders	174	243	253	127	140	145
Labourers	193	269	278	129	139	144

¹ For details concerning weighting system, and changes made in it, see notes to relevant tables in the *Statistisches Jahrbuch der Schweiz*.

² The figures for the metal-working and machinery industry exclude childrens' allowances and the *pro rata* allowance (included in most other cases) for bonuses that are regularly paid at certain times of the year. In the case of the watch industry, also, no allowance has been made for these bonuses, and the same is true in part for the chemical industry. In 1961 the figures for the printing trade are exclusive of childrens' allowances.

³ Includes: carpenters, house-painters, plasterers, electricians, motor mechanics, and other workers in handicrafts.

⁴ Usually up to 18 years.

⁵ Does not cover the upper grades of supervisory personnel or managerial staff.

⁶ These relate to the basic hourly wage rates set by collective contract. They do not therefore include overtime pay, bonuses, holiday pay, family allowances, etc. which are usually included in the earnings figures above.

Source: Same as Table 2.

cent of those for the skilled grade (57). (See Table 4.) For women (in both workers' and white-collared groups) (58) the rates of pay have been roughly 60 per cent of the rates for men.

TABLE 4

HOURLY EARNINGS OF WORKERS IN INDUSTRY, TRADE, ETC.,
AND BASIC CONTRACTUAL HOURLY WAGE RATES IN CONSTRUCTION¹
(Centimes)

Branch	Skilled men			Semi- and un-skilled men			Women		
	1949	1960	1961	1949	1960	1961	1949	1960	1961
Manufacturing	283	400	428	233	333	353	166	229	244
Textiles	266	376	405	222	305	320	164	217	229
Clothing and accessories	288	380	396	239	331	347	163	222	236
Food and allied	282	394	417	229	329	344	148	212	225
Chemicals	304	439	461	258	380	399	170	236	247
Paper and leather	287	409	434	249	349	371	156	216	230
Printing	337	487	499	234	342	351	152	228	235
Wood	256	351	377	211	293	313	152	211	225
Metal-working and machinery	273	401	433	229	339	362	164	233	255
Watches and jewellery	330	455	481	262	370	393	201	275	290
Clay and stone	274	387	415	233	321	346	164	219	237
Other	271	374	400	226	307	328	168	233	247
Trade	291	401	424	245	337	355	174	231	247
Private transport undertakings	293	390	406	230	322	339	—	—	—
Total	283	400	427	234	333	353	167	229	244
Construction	251 ²	350 ²	364 ²	211 ³	293 ³	303 ³	—	—	—

¹ The figures relate to the month of October.

² Builders.

³ Labourers.

See notes ¹, ², ³ and ⁶ in Table 3.

Source: Same as Table 2.

3. As between the different activities, those in which earnings rates had been well above average in 1949 still held, in most cases,

(57) The gap between one end of the skill scale and the other would of course look wider were we able to separate out three or four categories (instead of only two) as is done in the statistics of some other countries.

(58) The rates for the white-collared group are not reproduced in the table.

about the same relative positions in 1961, and so did those in which earnings had been average or below. This observation applies to what are predominantly men's trades as well as to women's. Thus not only the textile and clothing industries, but also the food-processing, wood-working, and building-materials industries were still about as low-paid, relatively to other trades, in 1961 as before (59). This impression is sharper when we consider that for some of the well-paid branches — such as the chemical, the machinery, and the watch and jewellery industries — the earnings figures shown in our table exclude some items which the figures for the other branches include. Some of the low-paid branches, such as textiles and clothing, seem even slightly to have worsened their wage position relative to that of some of the better-paid ones. These two are, it may be noticed, both branches in which technical progress and the associated productivity increase has been relatively slow.

4. Earnings figures for the construction industry are lacking. Only the averages of hourly basic wage rates set by the collective contracts are available for this sector; and these make no allowance, of course, for "extras" (such as overtime pay, extra pay for working on holidays, hours paid for but not worked, family allowances, and so on). We may notice, however, that the indices of these basic rates indicate a percentage gain between 1949 and 1961 of about 45 per cent for builders and 44 per cent for labourers. (See Table 3 above.) Again the rates for unskilled work moved up by only roughly the same percentage as those for skilled work; and this is an industry which still uses a very high proportion (a little over 60 per cent in 1961) of unskilled workers. But we should notice also that the wage rates for both grades evidently rose less fast up to 1959 than the rates in other industries; and it looks as though this industry's relative wage position, for both grades, was inferior in 1961 to what it had been before the war. Again it should be observed that this industry belongs to the group with a comparatively slow rate of productivity growth.

5. No wage index, or comprehensive earnings statistics, are available for agriculture, or for domestic service, and in the hotel and catering sector the figures cannot for obvious reasons (the need

(59) The relative positions for salaried employees are very similar to those for workers,

for example to allow for board and lodging) be directly compared with those for the other sectors to which we have referred. Certain tendencies are, however, clear. In domestic service, for which even foreign labour has become increasingly hard to obtain, the rates of pay have been pushed up very sharply in the last few years. An improvement in the relative earnings position of this sector has become unavoidable. In many recent advertisements the rates of pay offered and demanded have been about double those current in 1950. In the hotel business, a noteworthy development is the substantial improvement in the relative wage position of women compared with men. The figures (60) for those working for a fixed monthly wage or salary, and on an all-the-year-round basis, show that between July 1949 and July 1961, the average monthly wage for women in the skilled group (61) increased by 73 per cent (as against 43 per cent for men), and the wage for women in the semi- and unskilled group by 70 per cent (as against 50 per cent for men). Even at the new rates, a woman's pay in the skilled grade was however, only just over 60 per cent of a man's (or much the same as in industry); though in the unskilled grade the ratio was much higher (95 per cent).

6. Though there are a number of exceptions, the broad conclusion seems justified that the percentage increases in hourly earnings since 1949 have been fairly even, as between skilled and unskilled workers, as between men and women, as between the white-collared group and workers, and as between what are relatively poorly-paid trades, even for men, and what are well-paid trades. On the whole, the relative wage structure was remarkably stable during this period.

3. Effects on the Employment Structure of the Economy

Combining the statistics of the distribution of foreign labour between trades with the earnings and wage statistics, we see that the foreign labour force has up to now been heavily concentrated in the less well-paid trades, both men's and women's, and in the trades which use a high proportion of the unskilled and therefore relatively poorly-paid grades of labour, or have a large proportion

(60) Cf. *Die Volkswirtschaft*, Oct. 1961, p. 444.

(61) Excluded from this group is managerial staff.

of unpleasant, even if moderately well-paid, jobs. The immigration has, that is to say, been up till now highly selective.

By 1961, however, and still more markedly in 1962, a good sprinkling of foreigners, men as well as women, and skilled workers as well as unskilled, were to be found in other branches than those to which we have just referred. Significant in this connection was the increase in the numbers registered by the Police Statistics under the heading "trade and offices", which had now become one of the branches regularly showing a high number of unfilled vacancies. In this, and probably other, branches there was growing employment of foreigners in the relatively well-paid, and attractive jobs. This development was something over and above what we have called the *automatic* spill-over of foreign workers into these jobs, since a condition for that spill-over is release from police control and therefore exclusion from the Police Statistics. It seems to indicate, then, that Switzerland had, by this time, entered the "second phase" of the process described in Part I, pp. 18-19 and 37-40, of this article, and that the immigration now contained a sizeable element of unselectiveness.

An approximate account of the extent to which individual branches of manufacturing industry have come to rely on foreign labour is given by the Factory Statistics (62). In September 1961, foreigners accounted for between 40 and 50 per cent of the total number of workers and salaried employees covered by these statistics in three branches, namely, textiles, clothing, and building materials. They accounted for between 30 and 40 per cent in the wood, leather and rubber, and metal-working branches, and for between 20 and 30 per cent in the food-processing, paper, machinery and equipment, and some smaller branches. For the group as a whole the proportion was 30 per cent (63). (See Table 5.) By September 1962 it had risen to about 34 per cent.

(62) See n. 51, on p. 47, concerning the representativeness of the statistics. It should also be remarked that the method of classification (by branch of industry) used in these statistics is not identical with that (by occupational group) followed in the Police Statistics.

(63) Prior to World War I, and before national labour markets were so strongly protected as they later came to be, there were times when Switzerland was employing foreign workers on a scale comparable to that of a few years ago, even if not to that reached more recently. This was not only true of the seasonal trades. In 1911, for example, the Factory Statistics showed 22.3 per cent of the total numbers employed as being foreigners. This was close to the figure of 24.1 per cent recorded in 1960. The percentages in individual industries were,

TABLE 5

FACTORY STATISTICS: EMPLOYMENT OF SWISS AND FOREIGNERS
BY BRANCH OF ACTIVITY¹

Date and branch:	Swiss			Foreigners			Total			Per cent	For- eigners as per cent of total
	Men	Women	Total	Men	Women	Total	Men	Women	Total		
	'000	'000	'000	'000	'000	'000	'000	'000	'000		
1950 ²											
1. Food and allied	16.6	14.9	31.6	0.7	1.8	2.4	17.3	16.7	34.0	6.9	7.1
2. Textiles	23.9	32.4	56.3	1.4	6.4	7.8	25.3	38.8	64.1	13.0	12.1
3. Clothing	10.7	34.4	45.2	0.9	5.5	6.3	11.6	39.9	51.5	10.5	12.3
4. Accessories	4.0	1.2	5.3	0.1	0.1	0.1	4.1	1.3	5.4	1.1	2.7
5. Wood	31.2	1.5	32.7	1.5	0.1	1.6	32.7	1.6	34.3	7.0	4.6
6. Paper	8.1	4.6	12.7	0.3	0.4	0.7	8.4	5.0	13.4	2.7	5.4
7. Printing and publishing	15.7	5.7	21.4	0.8	0.3	1.1	16.5	6.0	22.5	4.6	4.9
8. Leather and rubber	4.0	1.6	5.6	0.3	0.2	0.4	4.3	1.8	6.0	1.2	7.3
9. Chemicals	17.7	4.4	22.0	0.6	0.2	0.9	18.3	4.6	22.9	4.6	3.9
10. Clay and stone	14.3	1.2	15.5	1.7	0.1	1.8	16.0	1.3	17.3	3.5	10.5
11. Metal-working	45.3	4.8	50.1	2.0	0.5	2.5	47.3	5.3	52.6	10.7	4.8
12. Machinery and equipment	97.4	11.0	108.4	4.5	0.9	5.4	101.9	11.9	113.8	23.1	4.7
13. Watches and jewellery	23.6	21.8	45.5	0.7	0.9	1.5	24.3	22.7	47.0	9.5	3.3
14. Musical instruments	1.6	0.8	2.4	0.1	0.1	0.2	1.7	0.9	2.6	0.5	6.9
15. Electricity, gas and water	5.2	—	5.2	0.0	—	0.0	5.2	—	5.2	1.1	0.6
Total	319.4	140.3	459.7	15.4	17.4	32.8	334.8	157.7	492.6	100.0	6.7
1961 ²											
1. Food and allied	18.7	13.8	32.4	4.1	6.6	10.8	22.8	20.4	43.2	6.0	24.9
2. Textiles	19.8	21.3	41.1	8.3	20.5	28.8	28.1	41.8	69.9	9.7	41.3
3. Clothing	8.6	24.7	33.4	5.1	27.2	32.3	13.7	51.9	65.7	9.2	49.2
4. Accessories	6.0	2.0	8.1	1.4	1.5	2.9	7.4	3.5	11.0	1.5	26.0
5. Wood	28.5	1.9	30.4	13.1	1.1	14.2	41.6	3.0	44.6	6.3	31.8
6. Paper	9.7	4.8	14.5	2.2	2.6	4.8	11.9	7.4	19.3	2.7	24.9
7. Printing and publishing	21.5	7.6	29.1	3.9	1.8	5.7	25.4	9.4	34.8	4.9	16.4
8. Leather and rubber	3.3	1.4	4.7	1.8	1.3	3.1	5.1	2.7	7.8	1.1	39.3
9. Chemicals	23.9	6.4	30.3	3.4	1.0	4.4	27.3	7.4	34.7	4.8	12.8
10. Clay and stone	13.0	1.3	14.2	10.0	0.9	11.0	23.0	2.2	25.2	3.5	43.6
11. Metal-working	53.7	6.1	59.7	27.9	4.1	32.1	81.6	10.2	91.8	12.8	35.0
12. Machinery and equipment	124.7	15.1	139.8	46.1	11.7	57.8	170.8	26.8	197.6	27.6	29.3
13. Watches and jewellery	28.8	26.1	54.9	2.6	6.0	8.6	31.4	32.1	63.5	8.9	13.6
14. Musical instruments	1.2	0.4	1.6	0.3	0.4	0.7	1.5	0.8	2.3	0.3	29.6
15. Electricity, gas and water	5.2	0.0	5.2	0.1	—	0.1	5.3	0.0	5.3	0.7	1.2
Total	366.6	132.7	499.3	130.4	86.9	217.3	497.0	219.6	716.6	100.0	30.3

¹ The figures include salaried grades as well as workers and apprentices.

² The figures are for a date in mid-September.

Source: Same as Table 2.

In construction the ratio — during the season — was probably a good deal higher than this. Proportions of up to 85 per cent have been reported from individual cantons.

Between 1950 and 1961 the number of Swiss men employed in the activities covered by the Factory Statistics rose by nearly 15 per cent. But the number of women fell by 5 per cent. Marked decreases occurred during these eleven years in the numbers of Swiss women employed in two typically women's trades, namely textiles and the clothing industry. There have at the same time been increases in the numbers employed in the machinery industry and the watch industry. (See Table 5 above.) But the younger generation of Swiss women was evidently forsaking the traditional women's trades not only for the better-paid manufacturing branches, but also for jobs in shops and offices. (The approximate magnitude of the movement towards the latter is given by the Census figures in Table 7 below).

Since the mid-1950's the total number of Swiss workers, male and female, employed in manufacturing industry as a whole has been declining. (See Table 6.) Between 1956 and 1961, while the male element remained nearly constant, the female element declined by about 14 per cent. The fact that, over the last decade or so, the tendency to reject factory jobs in favour of other types of employment was more pronounced among young women than young men is perhaps an indication that, over this period, the rise in the average level of education and training has particularly affected girls, boys having more largely benefitted from it earlier. Part of the explanation, however, is probably the smallness of the number of well-paid jobs for women in manufacturing. If the Factory Statistics are a guide, women, native and foreign, formed almost the same proportion (30-32 per cent) of total employment in manufacturing in 1961 as in 1950. But by 1961 the proportion of foreigners in the total of women workers had reached 40 per cent (as against 26 per cent for men).

however, in many instances widely different in the one year from what they were in the other. The following are the percentages for 1911 (with those for 1960 in brackets): food and allied 25.2 (18.7); textiles 20.5 (36.2); clothing 12.0 (41.9); accessories 16.1 (19.3); wood 32.3 (24.3); paper 18.4 (18.3); printing and publishing 25.1 (13.1); leather and rubber 21.1 (30.0); chemicals 34.6 (9.8); clay and stone 47.4 (37.4); metal-working 26.7 (27.7); machinery and equipment 16.9 (22.4); watches and jewellery 8.4 (7.5); musical instruments 18.2 (24.2); electricity, gas and water 9.2 (1.2).

TABLE 6

FACTORY STATISTICS: EMPLOYMENT OF SWISS AND OF FOREIGNERS¹

Year ²	Swiss '000			Foreigners '000			Total '000			For- eigners as per cent of total
	Men	Women	Total	Men	Women	Total	Men	Women	Total	
1895	n.a.	n.a.	174	n.a.	n.a.	26	119	81	200	12.7
1911	n.a.	n.a.	256	n.a.	n.a.	73	211	118	329	22.3
1937	218	116	335	14	11	25	232	127	360	7.1
1948	334	145	479	28	24	52	362	169	531	9.8
1950	319	140	460	15	17	33	335	158	493	6.7
1951	341	153	494	25	26	52	367	179	546	9.5
1952	345	151	495	30	23	53	375	174	548	9.7
1953	344	152	497	29	26	55	373	178	552	10.0
1954	350	152	502	33	29	62	382	182	564	11.0
1955	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	588	n.a.
1956	363	154	517	56	42	97	418	196	614	15.8
1957	366	152	518	73	55	129	440	207	647	19.9
1958	362	141	503	69	51	120	431	192	624	19.2
1959	364	140	504	70	51	121	434	191	624	19.4
1960	367	139	506	94	66	160	461	205	667	24.1
1961	367	133	499	130	87	217 ³	497	220	717	30.3
1962 ⁴			494			259			753	34.4

For notes 1 and 2, see Table 5.

³ Of these 17.4 had permanent permits, and 178.8 temporary permits, and 21.1 were frontier commuters.

⁴ Provisional. Persons employed in research laboratories have, under a new regulation of the Factory Inspectorate, been excluded from the 1962 figures.

n.a. = not available.

Source: Same as Table 2.

In the Swiss case, the participation of women in the employment shift involving the up-grading of native labour, and importation of foreign labour to do the lower-grade jobs had, up to 1962 at least, been larger than in other cases, such as the German, and the French.

According to the Factory Statistics, the figure for total employment in manufacturing industry of Swiss plus foreign workers rose between 1950 and 1961 by as much as 45 per cent. The holes left

TABLE 7

RESIDENT POPULATION; AND RESIDENT ACTIVE POPULATION, BY BRANCH OF ACTIVITY

	Census 1950				Census 1960 ¹				Percentage incre- ment (+) or decrement (-)		
	Men '000	Women '000	Total		Men '000	Women '000	Total		Men	Women	Total
			'000	Per cent			'000	Per cent			
Total resident population	2,272	2,443	4,715	100.0	2,671	2,758	5,429	100.0	17.7	12.9	15.1
of which:											
Foreign	117	169	285	6.1	330	252	583	10.7	182.1	49.1	104.6
Active population ²											
1. Agriculture and forestry	325	30	355	16.5	259	33	292	11.6	-20.3	10.0	-17.7
2. Industry	745	227	971	45.1	966	279	1,245	49.4	29.7	22.9	28.2
of which:											
Food and allied	72	25	97	4.5	77	32	110	4.4	6.9	28.0	13.4
Textiles and clothing	69	115	184	8.5	62	107	168	6.7	-10.1	-7.0	-8.7
Metal-working, machinery and watches	277	53	330	15.3	401	87	488	19.4	44.8	64.2	47.9
Construction	165	2	168	7.8	230	(a)	234	9.3	39.4	—	39.3
3. Trade, banking and insur- ance	164	102	266	12.3	191	147	338	13.4	16.5	44.1	27.1
4. Hotels and catering, and transport	118	74	192	8.9	159	92	250	10.0	34.7	24.3	30.2
5. Other activities	163	208	371	17.2	183	208	390	15.5	12.3	0.0	5.1
of which:											
Domestic work	99	99	4.6	(a)	74	75	3.0	—	-25.2	-25.2
Total active population	1,515	640	2,156	100.0	1,757	758	2,514	100.0	16.0	18.4	16.6

¹ Estimates only, except for the item "total resident population".

² Including unemployed, who numbered in 1950 9.0 thousand.

(a) Under 10 thousand.

.. negligible.

Source: *Die Volkswirtschaft*, Dec. 1961.

by the shifts of Swiss workers out of the various industries had been filled, or more than filled, by foreigners. The result was that Switzerland ended up in 1961 with an employment structure in manufacturing which, measured by the percentage distribution of the employment total between the different trades, came fairly close to what she had had in 1950. (See Table 5 above.)

For a more complete statistical description of how the employment structure of the whole Swiss economy has moved since 1950 we must look at the 1960 Census data (Table 7). These relate only to the "resident" population, and thus exclude the large numbers of foreign workers who had at the Census date (beginning of December) left Switzerland for the seasonal recess. According to these figures the total number of resident foreigners rose between December 1950 and December 1960 from 285,000 to 583,000. The number had thus doubled in ten years, and represented in 1960 over 10 per cent of the population. For the resident active population classified by branch of activity, the only figures so far available for 1960 are estimates based on a sample test of the Census returns. These figures show an absolute, as well as relative decline since 1950 in the importance of agriculture, of the "women's trades" in industry, and of domestic work. Employment of women has grown particularly in the "metal-working, machinery and watches" group under "industry", and in the "trade, banking and insurance" group.

4. Future Policy Alternatives

A large amount of foreign, or repatriated Swiss, capital has in recent years been seeking investment on the territory of this small country. Up until about the end of 1960, however, the level of domestic investment spending was, as the Governor of the National Bank has observed (64), kept roughly in line with the level of domestic saving. Only after that date was this limit exceeded, and "foreign" capital used to fill the gap. It was then, too, that the rate of price inflation reached a figure which, by the standards of recent Swiss experience, looked alarmingly high. In face of this

(64) Dr. W. SCHWEGLER, address to the *Annual Meeting of the Bank*, 24 March, 1962.

tendency for the volume of investment funds used in the domestic economy to exceed the previous limits, the monetary authorities, in their effort to combat inflation, called upon the banks to exercise restraint in expanding the volume of lending. And appeals were made from many sides to employers and trade unions to refrain from pushing wages up as a way of meeting the "shortages" of labour that were now manifest in most branches of the economy. On the other hand, the alternative course of importing new contingents of foreign workers to meet these shortages was generally considered also undesirable.

So far as the present foreign labour force is concerned, it is recognized that there is no possibility of "turning back". And the awareness of the precariousness of the present situation in all those industries which have come to rely very heavily on foreign labour has led many a Swiss commentator to point to the necessity of rapidly assimilating the greater part of the present body of foreign workers. This means giving seasonal workers non-seasonal status, allowing family dependents to come in after a shorter delay, and making the acquisition of permanent residence permits easier. In view, however, of the size which the foreign population that must be thus assimilated has already reached, there is a widespread feeling that a halt should be called to the importation of new contingents.

What alternative is there? Many of the participants in the recent discussion have observed that, on the assumption that the importation of additional contingents of foreign labour is to cease, or markedly slow down, the process of economic expansion must in the future change its form. It must consist more largely of "capital deepening", and a faster rate of productivity growth per head of the labour force, and less largely of a broadening of the employment base. They have pointed to individual sectors, such as agriculture and the watch and textile industries, that would have to be "rationalized", and to the need for exploring, in other manufacturing industries, the possibilities of increased automation. But it is probable also that the capital-deepening process would have partly to take the form of an increase in the relative weight (in terms of employment) of the more capital-intensive branches of the economy over against the less capital-intensive branches. The capital-deepening process would allow, and induce, an acceleration of the real rate of increase in the general wage level. The question which

still remains, however, is whether it would not also be necessary, under the same assumption about new immigration, and if acute labour shortages in certain vital branches of the economy were not to become a permanently unsolved problem, to make a number of adjustments in relative wages.

What is at once clear is that, even without such adjustments, there is no need to import foreign labour into the sector comprising the "well-paid" jobs, or those for which the wage level is *relatively* too high. This part of the labour import can certainly be avoided. It performs no other function but that of keeping down the *general* wage level. And eliminating this element would also reduce the number of holes requiring foreign workers to fill them in the sector comprising the "poorly-paid" jobs, or those for which the wage level is relatively too low. There would then be left an irreducible minimum of foreign workers that would have to be imported into this latter sector, in each period, as an offset to two internal sources of growth in the number of workers seeking employment in the well-paid sector. These are: (a) the natural increment in the qualified part of the native labour force; and (b) the part of the existing foreign labour force which must, unavoidably, be allowed to shift out of one sector into the other. The annual new contingent of foreign workers which it would be necessary to import, in order to avoid having to make relative wage adjustments, might still be moderately large, even though not as large as it was earlier, when a substantial part of the native labour force was still in process of "shifting" from one sector to the other.

It was remarked above (65) that relative wage adjustments will be particularly difficult to make when it happens that some of the industries in which relative wages are too low are also industries in which the rate of productivity increase due to technical progress is relatively slow. Under such conditions, the adjustments can be made without undue stress only if the average rate of productivity-increase per head of the labour force in the economy as a whole is very high. For the higher this rate is, the easier will it be to keep the real wages of all labour groups rising in an absolute sense at the same time as the wages of some groups are raised relatively to those of others; and the easier will it be to make the relative wage

(65) See pp. 10-11.

adjustments without exerting inflationary pressure on the general price level.

It appears, however, that for Switzerland the task of making such relative wage adjustments might be rendered comparatively easy by a special circumstance of her case, namely the ample supplies of capital at her disposal. The way is open to her to promote that rapid increase in productivity of which we have just envisaged the necessity by encouraging, through a liberal credit policy (equivalent to the continuing absorption by the economy, for some time to come, of "foreign" capital at the recent, or a higher rate), the capital-deepening process.

We may sum up by distinguishing three main policy alternatives. The first is a policy of Classical internationalism, or of allowing foreign workers to immigrate freely into all sectors of the economy, regardless of the effect on the domestic wage level, over-foreignization, or other consequences. A limited application of this policy — limited, that is, in respect of the area of origin of the immigrants — is, of course, what would be called for by following, to the letter, the charter of the European Economic Community, were Switzerland to become a member.

The second policy is that of continuing to import foreign labour, but into the poorly-paid job sector *only*, and to go on avoiding relative wage adjustments (66). In the past the native labour force, or the "major part" of it, has fared well under this policy, one reason being that the policy's effect in raising rents has so far

(66) On March 1st, when this article was already in the press, the Federal authorities promulgated a regulation restricting the number of additional foreign workers that may be imported. The regulation, which has a validity of twelve months, contains two main provisions:

(a) During this period, temporary residence permits (*Aufenthaltsbewilligungen*) and permits to change jobs, will as a general rule be granted to foreign workers only if the total number of persons (natives plus foreigners) employed in the firm by which the foreign workers are to be hired will not thereby be raised above the maximum figure reached in the month of December 1962 or, in certain cases, some other time during that year.

(b) The employer hiring the new foreign workers must undertake not to increase his total employment figure so long as the new regulation remains in force.

The rule is subject to a number of exceptions. It does not, for example, apply to agriculture or domestic service. Moreover, since native workers remain, as always, free to choose and change their jobs, the continuing tendency for natives to desert some branches of the economy for others will leave holes in the former which it will still be permissible to fill by hiring additional foreign workers. The new regulation will thus serve primarily to stem the flow of foreign labour into the better-paid (or for other reasons more attractive) jobs.

been kept small by the fact that many of the foreign workers were women, or young and still single men, and that a large part of the family dependents of the married men stayed at home (67). It is a fair guess that, during the past ten or twelve years, the major part of the native labour force gained more from the effect of the importation of foreign workers in keeping up the *relative* wage advantage of the jobs in which it was employed than it lost by the effect of that importation in making the *general* wage level lower than it would otherwise have been. We cannot, however, on the basis of the data at our disposal, be absolutely sure of this point; nor can we estimate just how large the "major part" of the native labour force was. The "minor part", consisting of those native workers who remained in the poorly-paid jobs, certainly did less well than they would have done had relative wages been adjusted.

The statistics show an increase in the general wage level between 1949 and 1961 of nearly 50 per cent in money terms, and not far from 30 per cent in real terms. Thus measured, however, the average improvement for native workers looks more modest than it really is. The figure gives us an approximately accurate measure of the gain made only for that part of the native labour force which continued to be employed in the less well-paid jobs. For the remainder the average gain was larger, because of the "promotion" of a substantial part of it from the poorly-paid to the better-paid jobs. (Even the foreign workers, who replaced this part in its former jobs, gained on the average more than is shown by the increase in the general wage level, since they jumped from a relatively low foreign wage level, or zero level if they were formerly unemployed, to the Swiss level).

The third policy is one of ceasing to import new contingents of foreign labour, even into the poorly-paid sector, of adjusting relative wage rates, and perhaps of aiding this adjustment by letting the economy — during the period of transition from the old wage structure to the new — absorb, or continue to absorb, foreign capital, as a way of achieving a more rapid rise in productivity and in the

(67) On the other hand, this meant that remittances home were higher, and the amount of direct spending by the foreign workers on the goods produced wholly, or mainly, by native labour smaller. (There was thus some weakening of the "relative wage-effect" as well as of the "general wage-effect"). In 1961 the remittances amounted to an estimated 900 million francs.

general wage level. This second policy might in the future afford at least as good a rate of improvement in its real wage level to one part of the native labour force (the part at present occupying the jobs that are now, relatively speaking, "overpaid") as would a continuation of the second policy (or a movement in the direction of the first). And it would certainly afford a better rate to the other part (at present occupying the jobs that are "underpaid").

Let it be added that there is no reason why the third policy should, in principle, be more inflationary than the second (or first). In both cases it is a matter of keeping the rise in the general wage level in line with the increase in overall productivity. What *would* most probably entail a further rise in the domestic price level is an increase in the rate of net capital import above the currently prevailing rate, an increase which inevitably implies augmenting the deficit in the balance of payments on current account (68). But other things (e.g. foreign price levels) being equal, even this would not imply continuous inflation, so long as a more or less stable annual rate of capital import was maintained. The necessary upward movement in the price level would under these conditions be a once-for-all movement.

At present the discussion in the press and elsewhere runs in terms of the measures that should be taken to control the "excessive boom" or the "overheating of the *Konjunktur*", and some people see the solution in a stricter credit policy (69). A diminution in the level of domestic investment spending would, it is true, serve to reduce the *overall* demand for labour in the economy; but it would scarcely suffice by itself to match supplies with demands in the individual trades and occupations. The problem of breaking labour "bottlenecks" in particular sectors without the aid of new contingents of foreign labour would remain. Unless we believe, despite the doubts raised earlier (70), that technological changes

(68) Concerning this point of the *probable* necessity of a rise in the price level of the capital-importing country relatively to the price levels of the non-capital-importing countries, I need only remind the reader of the controversy between Keynes and Ohlin in the 1920's about the reparations problem.

(69) Very recently, however, there has occurred in Switzerland a marked shift in opinion concerning the direction of the causal relationship between the "excessive boom" and the importation of foreign workers, the latter phenomenon now being widely recognized as intensifying the boom rather than — as was earlier held to be the case — mitigating it.

(70) Cf. pp. 44-5.

are going in the near future fully to solve this problem, it is difficult to see that there can in the end be any other solution than that of a revision of the relative wage structure. For in the end even the sources of supply of *cheap* foreign labour are going to dry up.

This is mostly Switzerland's problem at the moment. But though Switzerland may have to be the first country to tackle it, will not a number of other countries in North West Europe eventually have to follow suit?

Zurich.

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