Economic Impact of Foreign Labour

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

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

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

Repercussions on the Labour Market

The decline of the working population in relation to the total population is the outcome of a process of divergent changes with their root cause in the age distribution of the German population -- the ratio of working-age (15 to 64 years) to total population fell from 67.2 p.c. in 1960 to 63.4 p.c. in 1970 -- and longer attendance at school combined with the growing demand for further education courses and more demanding examination standards.

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

- the reduction of working hours which tends to lower the output per worker,
- the loss of an increasing number of older workers in connection with the lowering of the retirement age (optional retirement) which is advocated on social grounds and will decrease the working population,
- the slow growth of the total population: according to OECD calculations, it will until 1980 increase at an average of 0.4 p.c. annually -- the lowest growth rate of any industrialised country in the western world.

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

Industrial Sector as Beneficiary

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

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1 Heinz Salowsky, Gesamtwirtschaftliche Aspekte der Ausländerbeschäftigung (General Economic Aspects of the Employment of Foreign Labour), Beiträge des Deutschen Industrie-Institutes (Contributions of the Institute of German Industry), No. 10/11/1971.
have thus fulfilled an important compensatory and complementary function.

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

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

Contribution of Foreigners to Social Insurance

In the social insurance field the employment of foreign nationals has until now had positive effects. Owing to their favourable age distribution the foreign workers employed in the Federal Republic have so far made no significant demands on the social insurance system. Their current contributions add up to a substantial sum while the amounts drawn by them in benefits are at present still relatively small. Bearing in mind that a further, if slower, increase in the employment of foreign labour is to be expected in the long term, the foreign workers in the Federal Republic will continue to pay through their contributions for the pensions to which their predecessors will be entitled. Besides, the more foreigners are employed in the coming years, the greater will be the total of contributions paid in by insured persons of foreign nationality and available for insurance benefits payable to German pensioners in the years of the "pensions bulge".

General Economic Effects

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

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