

# **International Labour Migration – Theoretical Considerations and Evidence from the Experience of the Mediterranean Sending Countries**

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## **1. INTRODUCTION**

Immediately after the end of the Second World War in 1945, most observers expected that under the pressure of thousands of displaced persons in Western Europe, traditional migration streams between Europe, on the one side, and the countries of North and South America and Oceania, on the other, would be revived. But soon this proved to be a misconception: not only were most of the refugees, but also a considerable part of the working population of southern Europe (mainly from Italy) and Algeria were absorbed by the rapidly expanding labour markets of the countries of North-Western Europe. When during the late Fifties, the reconstruction period of the European countries came to an end, at first, France, Belgium and Switzerland, and later, the Federal Republic of Germany and Austria experienced rapid economic growth which was accompanied by a depletion of their traditional sources of the labour force. With the intention of stabilizing their economic expansion, the industrial countries of Europe sought to open up new supplies in the European periphery. As a consequence, labour-recruitment contracts were concluded, during the Sixties, between the North-Western European countries and the Mediterranean ones (Greece, Italy, Portugal, Spain, Turkey, Yugoslavia and the countries of the *Maghreb*) to induce the inflow of foreign labour. Migrant workers were, at that time the most important growth factor in the industrialized countries of continental Europe.

During the years of high migration activity in Europe (1955 to 1970), the estimated annual number of first migrants from the Mediterranean-sending countries rose steadily and peaked in the early Seventies with a number of about 800,000 persons per annum, (Simon 1987). The number of migrant workers residing in the host countries of Europe rose from approximately 3 million in 1962 to 7.8 million in 1974. After stopping recruitment in the wake of the first oil crisis in 1973-74, the

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number of migrant workers in the host countries fell to 6.2 million workers in 1980 and then stabilized at a number of roughly 5 million in 1985 (Böhning 1984).

With the changing intensity of intra-European migration, content and geography of the migratory movement have also undergone substantial modifications. On the side of the sending countries, a reduction of out-migration is to be noted for Greece, Spain and Italy. During the same time, Portuguese and Turkish emigration have expanded. As a consequence of this, in 1980, the Italians, the Turks and the Yugoslavs were the largest nationality groups of all migrant workers, residing in the host countries (with 15, 12 and 10 percent respectively). The changing geographic pattern of migration can also be seen on the side of the host countries. In the early Sixties, France and Switzerland were the most prominent destinations of migrant workers, absorbing respectively 38 percent and 20 percent of the migrants. During the Sixties, the importance of Federal Germany, as a prominent importer of work force, increased, and in 1975, more than a third of all migrants in Europe, stemming mainly from Turkey, Yugoslavia and Italy, were employed in the Federal Republic [OECD-SOPEMI, (Various Years)].

After the adoption of restrictive measures by the host countries in 1973-74, total migratory flows did not fall to zero. In the beginning of the Eighties it stabilized around 180,000 to 200,000 persons per annum, mainly as a consequence of illegal workers' migration as well as of the intensified immigration of the non-working population (women and children) which was tolerated by the host countries on the basis of humanitarian considerations. Connected with this is a transition from the temporary workers' migration to a more permanent (i.e. working life, long residence) pattern. Because of this, the return migration never exceeded 600,000 departures per annum in the years after 1976. Today, the picture of intra-European migration shows, on the one hand, a certain stabilization of the stock of foreign population in the host countries, and on the other, a reduced but permanent inflow and outflow of people between the Mediterranean countries and the countries of North-Western Europe.

## **2. THE ECONOMIC CONSEQUENCES OF MIGRATION: A THEORETICAL ASSESSMENT**

During the short history of intra-European migration, the thinking about its economic (and social) consequences has undergone a marked change. Until the end of the Sixties, in view of the impression of vigorous economic expansion of the countries of North-Western Europe, workers' migration, by most observers, was judged to be beneficial to the host and the sending countries alike. On the one hand, the effects for the receiving countries have generally been considered positive in solving the labour market problems connected with their rapid economic growth (although certain doubts were expressed concerning the social costs in terms of

housing and infrastructure). On the other hand, the effects for the sending countries were also estimated to be helpful in solving their developmental problems. Modernization impulses brought home by returning migrants, an augmentation of the investment funds and the balance-of-payments relief effected by the migrants' remittances, and the improvement of the internal labour market situation were the main factors appearing on the positive side of the balance sheet of migration.

With the first oil crisis in 1973, this assessment of workers' migration changed fundamentally. As the European economic expansion began to level off, the need for foreign labour in the receiving countries diminished. As a consequence, a new assessment of the economic and social effects of migration appeared. Factors, which in earlier years had been estimated as positive ones, now appeared to be detrimental. Especially, with regard to the sending countries, the presumed beneficial consequences of labour migration have been questioned. The majority of the observers now consider that the emigration of a large part of the workforce has been detrimental to the economic development of the sending countries. The benefits connected with remittances and the relief of unemployment are estimated to be less in comparison with the possible negative effects. Emigration-related skill and manpower loss, the weakening of the regional economic structures, inflation and the diversion of productive resources into consumption-oriented investment are now the dominating features of the debate (Böhning 1984).

From a scientific point of view, the best way to assess the social and the economic consequences of migration would be a comparison of its effects, with the help of a formal cost-benefit analysis. However, due to several problems connected with the nature of migration as well as with the underdeveloped statistical sources of most of the Mediterranean-sending countries this would be a very difficult task to accomplish. These problems are:

First, the statistical data, necessary to evaluate the costs and the benefits from migration, very often, are incomplete and not reliable. For instance, in all the sending countries, the migratory flows are not well documented, because of the lack of administrative resources and the abilities or disinterest of the political bodies (the latter most conspicuous in Greece and Portugal). Therefore, the analysis has to rely on the data compiled by the host countries' authorities, which are not tailored according to the informational needs of the sending countries. Moreover, the precise statistical information on the labour markets of most of the Mediterranean-sending countries and their functioning is very scant. With the exception of Italy, in virtually no country, are reliable statistics available on the impact of migration of certain categories of skilled manpower. Also, detailed information on the employment, production and consumption effects at the regional level is lacking, or restricted to narrow time

periods. It is also very difficult to evaluate the effects of the remittances on domestic assets and goods markets as well as on the balance of trade on the basis of the statistical data available. Only macro-economic data of a certain reliability are available from the governments. Micro-surveys, if they exist, in most cases are too restricted in their extent, to allow comparison on a national or international level. Therefore, the observer, while setting out to analyze the economic consequences of migration, in most cases, is forced to work on the basis of "guesstimates" which do not justify the use of strictly formal methods. Second, many migration-related phenomena, in the economic and the social spheres, essentially, are of a non-quantitative nature. The major costs that enter a cost-benefit analysis are costs of training, loss of production and, notably, social externalities. It is not easy to assess the cost involved in the production of labour which is exported, because the private and the public costs of raising a child until he reaches working age cannot be determined exactly. And, it is much more difficult to calculate the losses of the human capital embodied in the migrants i.e. the "de-skilling" of manpower, caused by working abroad in inferior positions, and with the fact that most of the returning migrants bring back with them, not only remittances, but also very often, physical and mental illness as a consequence of the very hard working conditions under which they were living in the host countries. Thus, the loss of production connected with the out-migration of part of the national work force is very difficult to assess in a comparable manner. Because, it depends on the definition of employment and underemployment ("disguised unemployment") which is accepted by the analyst, and on the possibility to measure the employment situation, the outcome of the analysis is uncertain. Social externalities by their very nature are easy to describe, but difficult to evaluate. A certain arbitrariness in assessing, for instance, the effects of "internal diffusion of knowledge" foregone by migration, cannot be ruled out. So, the estimation of the costs and the benefits of migration is a very difficult task (Swamy 1985).

Third, a central question which arises in all calculations of the costs and the benefits of migration is to determine the social rate of return which is necessary to evaluate the consequences of migration for the near or the distant future. For, in a development context, it is useless to consider only instantaneous effects. It is the future position of the national economy and its social and economic groups that matters. In this connection, it has to be determined, whose costs and benefits should be considered with priority: that of the migrants; of the remaining domestic population; of the land owners; or that of the newly emerging industrial community? These are the questions that cannot be solved solely on the basis of scientific reflections. Ideological valuations are

unavoidable (Swamy 1985), and thus the analysis reflects, in the end, the political position of the observer.

Therefore, we sympathize with the conclusion, that the cost-benefit approach to international migration rests on very weak empirical and scientific basis and is, as a tool for policy decisions, rather irrelevant (Birks and Sinclair 1980). If the purpose is to give an overall assessment of the economic consequences of migration, then there is no other way but to evaluate the main costs and benefits in an informal manner by combining general economic reasoning and the piecemeal information available in each case [Lucas (1981) and Stahl (1982)]. This mode of eclectic reasoning will also be used as a base for the following analysis.

### **3. THE ECONOMIC CONSEQUENCES OF MIGRATION: EMPIRICAL EVIDENCE**

In order to evaluate the macro-economic effects of emigration, effects on the balance-of-payments position, on labour markets and employment as well as on internal monetary stability, and on the formation of human capital and modernization have to be considered. Most conspicuous are the first round effects of emigration and remittances on the employment situation and on the balance of private transfers of the sending countries. But in the long run, real and monetary adjustment processes gain momentum. As a response to the initial disturbance, new patterns of prices and allocation in the money, the goods and the factor markets are forced upon the economy. Where this cannot be effectuated, disequilibria are reinforced. These second round effects, which often are not easy to analyze because of their economy-wide nature, are decisive for the growth and development of the sending country's economy. Therefore, they must not be underrated in the evaluation of the economic consequences of migration for the sending countries.

The following presentation of the main effects of migration and remittances rests on a large set of empirical investigation into the experience of the European-sending countries, undertaken, recently, by the author (Körner 1987), as a consultant to the Organization for Economic Co-operation and Development (OECD).

1. All available data on the balance-of-payments position of the sending countries indicate that an increasing flow of workers' remittances was received by the sending countries. Between 1970 and 1981, the savings sent home by the Turkish and the Yugoslav workers increased tenfold, and of the other nationalities by more moderate, but noticeable growth rates. As it was hoped by the governments of the sending countries, when they were tolerating or actively promoting the emigration of a part of their work force, these flows were, indeed, mitigating the disequilibria of their

balance of payments during the Sixties and early Seventies. A considerable part of their current transactions deficits or of their import outlays respectively could be financed during this period by relying on these transfers (Körner 1987).

But, while the flow of workers' remittances, undoubtedly, has had the beneficial effects described above, there are reasons to believe that this flow of income from outside, in the long run, has raised the consumption levels of the population, thus depriving their countries from the urgently needed investment funds. Most empirical studies (Stahl 1981) show convincingly, that the propensity to consume out of the remittances is above the national average. When the remittances are spent on non-traded goods (i.e. consumption goods and services of national origin), it is questionable if the rise in demand can be satisfied by an immediate increase in their supply because of the rigidities which characterize the markets of the sending countries. Therefore, the expansion of demand may simply cause a rise in domestic prices. And if, as a consequence, the demand switches towards traded goods (mainly consumers' durables of foreign origin), the import bill of the country may be expanded, aggravating the existing foreign trade disequilibrium.

The same may be expected in the case of investment outlays out of the savings from remittances which have not been earmarked for consumption purposes. Because, this investment is mainly in the fields of housing and real estate which cannot be expanded indefinitely, inflationary pressure is bound to arise from a cost-push in these markets. As inflation aggravates the balance of payments position, the policy of the sending countries which aims at the balance of payments equilibrium by encouraging the export of labour will, doubtlessly, turn out to be self-defeating.

2. In a situation of persistent and mounting unemployment (Körner 1987), the governments of the Mediterranean countries found the opportunity to export part of their surplus labour to be an expedient solution. And indeed, according to the calculations of experts (OECD 1977), this policy proved to be an effective one: the unemployment rates would have been significantly higher, without emigration, than the rates with emigration. But problems, in the long run, were generated because the natural selectivity of the migratory process itself as well as the recruitment criteria of the receiving countries were enhancing the structural disequilibria in the labour markets, mainly, of the skilled personnel. Especially, during the first phase of intensive emigration in the Sixties, it was mainly the skilled, young and enterprising workers who left their native country (Böhning

1984). As a consequence of this, bottlenecks occurred in the construction industry as well as in the skilled professions, sometimes hindering the expansion of production and thus producing new secondary unemployment. Often, the skilled workers who were in short supply could not be replaced easily and, when this could be done, it would be only at high cost because of the necessary professional training. Comparable problems also arose in some agricultural regions, especially where small holdings are the dominant production unit: there the departure of the more active part of the population caused significant losses of production (McLean Petras 1984).

Moreover, this "skimming-effect" of emigration is not compensated for by the import of new skills and modern experience, on the part of the returning migrants. For, it is evident that in most cases, the returnees have experienced only negligible occupational upgrading. Often a process of "de-skilling" of migrant workers is appearing (Stahl 1982). And as experience shows, the majority of the migrant workers, returning to their home countries, are not the enterprising and the dynamic ones, but are those who return either because of retirement or because of failure or political restrictions. In the light of this experience, some commentators were led to speak of the "myth of the individual's contribution to modernity" (Böhning 1984).

3. The considerations of the preceding sections suggest that the sending countries miscalculated the long term economic difficulties caused by the emigration of a large part of their work force. Nevertheless, the policy stances adopted by the governments of the sending countries have their roots in the general situation of lagging economic development of these countries. This, to take it in a nutshell, is described by
  - (i) the persistence of traditional patterns of economic activity and the non-diversified market structures, especially in the rural regions, which prevent the establishment and the successful functioning of a coherent system of economic transactions;
  - (ii) the inflexibility of national and regional markets which imposes severe restrictions on the economical use of resources and thus results in permanent inflationary pressure; and
  - (iii) the existence of dualistic structures in society which works against modernization, especially in the rural regions.

The structural distortions create severe macro-economic imbalances and a constant pressure on weak governments to intervene in the economic

process with administrative regulations which in turn, often amplify structural rigidities. It is clear, therefore, that the endemic inflation, which was a typical feature of most sending countries, even before the first oil crisis, (Körner 1987), is the consequence of many factors other than the structural disequilibria, resulting from the emigration of the skilled work force alone. Nevertheless, it must be insisted that the governments of the sending countries were intensifying structural disequilibria, mainly in the labour and capital markets, and thus were producing a cost-push inflation. Therefore, it may be concluded that the beneficial short-term effects of workers' migration, as a device to alleviate acute labour market and balance of payments problems during the Sixties, have been paid for in terms of risking long-term structural disequilibria which is detrimental to stability and development.

4. Under these circumstances, the sending countries' economies are most vulnerable to the risk of changing international conditions. This proved to be true after the advent of the first oil crises in 1973-74, when the receiving countries sought to protect their national labour markets by restricting the influx of foreign labour. As a consequence of this, the value of remittances to the sending countries showed a stagnating and, later on, a falling tendency. The emigration from these countries was reduced markedly, in some cases, like Turkey and Portugal, by 94 percent and 85 percent respectively [OECD-SOPEMI.: (1976); (1977) and (1984)]. Especially, these countries sought to open up new markets for their labour force in the oil-producing countries of the Middle East but with only limited success (Simon 1987).

In summarizing the evidence from the Mediterranean-sending countries, it must be stated that their policy stance of promoting workers' migration, as a safety valve mitigating their employment and balance of payments difficulties proved to be workable only under favourable economic conditions. The economic crisis of the second half of the Seventies and of the beginning of the Eighties revealed the uncertain future of international migration and at the same time the dependence of the sending countries. With the benefit of hindsight, it appears to be evident that the governments of the sending countries followed an unrealistic conception of the migratory process, in anticipating the advent of short-term stability and of long-term modernization effects on their economies and societies. Striking an overall balance of the short-term and the long-term effects of the workers' migration, one must come to the conclusion that the positive short-term effects with respect to remittances and labour market relief are outweighed by the negative long-term effects, tending toward the perpetuation of the balance-of-payments disequilibria,



inflation and structural imbalance. In many respects, the sending countries, today, are in a worse position than they were at the beginning of the Sixties, because, they are now confronted with a rising number of returnees and the additional difficulties connected with their economic and social rehabilitation (Körner 1984).

There is room to believe that, in the meantime, problems comparable to those of the Mediterranean countries beset, also, some countries of Arabia and Southern Asia who have sent, in some cases, a very considerable part of their work force to the Arabian OPEC-countries [Birks and Sinclair (1980); Abella (1984)]. But it is hoped that it will not be too late for them to derive profit from the mixed experience of the sending countries of Southern Europe.

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**Comments on**  
**“International Labour Migration – Theoretical Considerations**  
**and Evidence from the Experience of the Mediterranean**  
**Sending Countries”**

The paper reviews the impact of international migration on the economy at a theoretical level as well as in the specific context of the experience of South European countries. At the level of theory, the analysis simply lists the costs and benefits of international migration and, as such, does not add much to the already considerable literature on the subject. In the case of the South European countries, the author concludes that the positive effects of migration on employment and the balance of payments have been more than outweighed by the negative effects in the form of loss of skilled manpower, diversion of resources into consumption and inflationary pressures in the economy.

However, these conclusions are not based on a systematic and thorough assessment of evidence for the countries under study. The empirical analysis tends to be sketchy and disjointed and in some parts misleading. For instance, the statement that the value of remittances receded after 1973 is not correct. It was the rate of growth of remittances which declined. The absolute level of remittances continued to increase and in recent years was from three to ten times what it was in the pre-1973 period. Similarly, the claim that remittance spending and labour shortages led to inflation and rising wages is based on very general aggregate data. For instance, it would have been more useful to examine wage changes in the skill/occupational group most affected by outmigration rather than the average earnings across all occupational groups.

Further, the paper does not distinguish between the short and the long-run impact of labour and remittance flows either in the theoretical discussion or in terms of the experience of specific countries. Thus, the second round effects of rising wages and prices, on the labour market and on output, are largely neglected.

The empirical analysis would also have benefited considerably if the author had examined inter-country differences in the macro-economic impact of international migration. The sample included countries at varying levels of development ranging from less developed countries like Portugal and Turkey to the more highly developed economies of Spain and Italy. There are also significant differences in the degree of dependence on labour and remittance flows among the South European countries

which would be reflected in the differential impact of these flows on their economies.

It would have been interesting to draw comparisons between the experience of South European countries and migration to the Middle East from Pakistan. Certain adverse consequences of international migration observed in the European context such as shortages of skilled labour, rising wages and a high propensity to consume out of remittances have also been noted in the case of Pakistan. However, evidence from Pakistan seems to indicate that, thus far, remittances have not generated inflationary pressures in the economy, but on the contrary, through enabling higher imports, have had a constraining effect on the price level.

Secondly, Pakistani migrants to the Middle East comprise mainly of temporary workers who go abroad on limited period contracts and in most cases are not accompanied by their families. Whereas, in the European case, labour policies were more conducive to the permanent settling of migrants. Therefore, demographic factors, such as the increase in the number of families in the migrant population, would be of greater importance in explaining changes in funds remitted by the European migrants as compared to the remittance flows from the Middle East.

Thirdly, the study emphasizes the skill selectivity of both out and return migration in the South European case. The young and the more enterprising workers comprise a major proportion of outmigrants, while the majority of returnees are old, less skilled whose return is described as 'return for retirement'. However, evidence for Pakistan indicates that the returnees are young and in the prime of their working life and thereby can make a greater potential contribution to the economy.

Finally, the view based on the European experience that the outflow of labour and the inflow of remittances have enabled the sending countries to avoid undertaking structural changes, needed to find a lasting solution to their employment and trade problems, is also very relevant to the Pakistani situation.

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