

# International Immigration: Theory, Evidence and Policy<sup>a</sup>

JEAN-DANIEL GERBER<sup>b</sup>

Mr. Vonlanten, President of the Government of the Canton of Fribourg,  
Mr. Vergauwen, Rector of the University,  
Mr. Kirchgässner, President of the SESS, Professor at the University of St. Gallen,  
Ladies and Gentlemen,

I was delighted to accept the invitation to give a speech at your annual conference on the subject of international immigration. As many of you probably know I have a background as a migrant myself: I spent a number of years abroad in the USA. Furthermore, in my previous incarnation as head of the Swiss Federal Office for Refugees, I was deeply immersed in matters of migration policy. However, at SECO we also deal with this topic in particular labour migration as SECO is in charge of regulating the Swiss labour market.

## 1. Introduction

Switzerland has a long tradition as a country of destination for migrants. Overall, this has been a “success story”, both from the economic as well as the social aspect. Nevertheless, over the passage of time we have acquired a great deal of experiences, positive as well as negative ones. We have been able to learn from our mistakes in immigration policy, with research always having made an important influence. This is all the more crucial as immigration policy is a popular subject particularly effective in arousing emotions. A better understanding of the different aspects is important for enabling policy decisions based on balanced and scientific research. Without it, it is all too easy to pave the way for simplistic and populist views and opinions.

- a Speech at the Annual Conference of the Swiss Society for Economics and Statistics (SESS) 24 June 2010, Freiburg.
- b State Secretary and Director of the State Secretariat for Economic Affairs SECO. This speech was drafted in collaboration with Bernhard Weber, State Secretariat for Economic Affairs, SECO.

### *Content and Structure of the Presentation*

Presently, there is a whole range of interesting and politically important fields under discussion. Questions relating to the consequences of the free movement of persons are certainly one. There are however also other areas of immigration in which we would like better understanding, such as those relating to the policy on asylum, illegal immigration or criminality. The importance of love as a factor to cross a border to follow the beloved might be an even more pleasant subject for a separate study at some point.

Foremost I would like to use my presentation to set out the views of SECO on the importance of international immigration to the Swiss economy. Restricting it to the purely economic aspects is not something I have done out of ignorance but merely as a way of concentrating my presentation in the 25 minutes allotted to me. I will be dividing my remarks into three chapters, namely **Theory, Evidence and Policy**.

## **2. What Does the Theory Tell Us?**

Economic theory states that immigration fundamentally provides economic benefits. Workers migrate from regions with fewer employment opportunities to countries with better job expectations so they can make better use of their potential. As a result, the national income of the immigration country increases for this enables arriving workers to be put to more productive use. The effect for the emigration country is less clear. In case of high unemployment, emigration may be beneficial as the migrants sent back part of their salary earned abroad. For instance, the Philippine economy relies heavily on remittances: they amount to 10 percent of GDP. However, taking into account the brain drain an emigration country may suffer, the picture is less clear. I will not dwell on this issue, but concentrate myself on the repercussion of migration on Switzerland.

From the microeconomic viewpoint immigration can be considered as an investment in human capital: although immigrants do not base their decisions to migrate purely on economic principles, they do take these into consideration. People migrate in general to exploit their own productivity potential to better effect. That is why the economic conditions such as differences in the income levels or different labour market situations are important as a way of explaining individual decisions on immigration.

Sociological aspects also play a role. As such, we have noted for example that immigration is often concentrated, to a relatively significant extent, on just a

few countries. This is due to the so-called “chain migration” which is explained by, amongst other things, the fact that immigrants often create social networks in which there is a good flow of information. It is also comforting for immigrants to find their own countrymen in the new country. In specific cases this also leads to the creation of diasporas. The Tamils from Sri Lanka are a good example. Hardly any country on the European continent has such an important colony as Switzerland does.

In addition to the fundamentally positive economic aspects of immigration, theory does however also tell us that immigration can alter the distribution of income of a given country. In other words, in most cases there are winners and losers. There are effects on distribution between labour and capital, between different sectors, various occupational groups and levels of qualification. The consequences of distribution certainly deserve special attention. I shall therefore come back to this assertion.

### 3. Evidence

What do we actually know about immigration to Switzerland and the impact it has on our economy?

What we do know first of all is that for decades Switzerland has been a destination country for immigration. Immigration to Switzerland has played an important role in the development of the Swiss population whose proportion of immigrants is correspondingly high at over 20%. My conclusion from this long history and its impact on our national economy is that the Swiss economy and the population in general have been very effective in deriving benefit from immigration. The foreign population has generally complemented the indigenous population really well, enriching the country’s society, economy and culture in the process.

Let me give you a few examples:

1. Numerous internationally well known Swiss companies were founded by foreigners. Nestlé, Ciba or Brown Boveri (ABB) are just three examples. Or do you remember Nicholas Hayek, an immigrant from Lebanon, who saved the Swiss watch industry in the 1970s?
2. Another wonderful example is the University of Zurich: when it was founded in 1833 all eleven professorship posts were held by foreigners. The debate about an appropriate proportion of foreign professors has recently resurfaced. The fact is that the proportion today is estimated at well below 100%. Bravo, it

shows that our universities are making progress in hiring more Swiss professors than in 1833 ...

3. Switzerland is one of the countries with the highest number of Nobel Prize winners per capita. We should add that half of these laureates were foreign born.
4. What would our national soccer or ice hockey team be without 'secondos', players who have adopted Swiss citizenship? Or let's take tennis, Roger Federer has a South African mother, and the name of the other great Swiss tennis professional Stanislas Wrawrinka says it all.

A small country relies on an intensive interchange with foreign countries for its economic success. This interchange cannot be restricted purely to trading in goods. Immigration provides for an international interchange of knowledge and know-how in particular. As we know, knowledge is a commodity which has become significantly more important over recent decades. Economic specialisation also requires access to foreign skilled labour. Without this access, sectors such as financial services, the chemicals and pharmaceutical industry or the machine industry in Switzerland would not have been able to reach the level of importance they have today. We don't know what other sectors will develop into the areas of Swiss speciality expertise in the future. I am convinced that the possibility of benefitting from a foreign workforce will continue to be a decisive factor for the competitiveness of the Swiss economy.

However, given all these positive aspects, we cannot deny that mistakes have also been made in Swiss immigration policy, although we have fortunately also learned from these. I would like to highlight three fundamental mistakes in the immigration policy for the purpose of example:

1. The opportunities for controlling the number of foreign citizens were grossly overestimated: For many years the idea of setting a limit on the proportion of foreign citizens was an important guideline of our immigration policy. We did so legally with the Ordinance on limitation regulation, the so called *Begrenzungsverordnung*. Whilst it was possible to control the number of skilled workers immigrating to Switzerland through a quota system, this process failed when applied to reverse immigration, i.e. in many cases the foreign workers stayed and did not return to their countries of origin. It also failed because of family ties. Many legally present, but lonely immigrants did what most of us would do in such a situation: they let their fiancé, their spouse and children come, with or without official authorization.
2. The concept of the Seasonal Worker Statute (*Saisonnierstatut*) was inhuman and politically controversial. In the 1970s Switzerland overcame the recession

merely in “exporting” its unemployed foreign workers to the hard hit Italy. It took half a century to abolish the *Sasonnierstatut*. People who have lived here for many years cannot simply be returned like goods. Taking a conscious approach to preventing integration of a lawfully present workforce into a society is just cruel. For Switzerland which claims to hold high the flag of humanitarian thoughts this is a black spot in our history of labour policy.

3. In the 80s we relied for too long on low-skilled workers in the seasonal sectors. As a result, the level of education and training amongst our non-citizen population was poorly suited to meet the growing demand for higher skilled people in the 90s. In my view, placing the focus of immigration on highly-qualified and specialist skilled workers, as set out in the new Aliens Act, was a decision going in the right direction.

But let me also assert that the Swiss population has also showed generosity which strike as an example. Think of the numerous “Schwarzenbach” Initiatives in the 60s and 70s which aimed at restricting the number of foreign population. Think also of the Asylum initiative of 2002. I remember very well November 24: A majority of the Swiss cantons accepted the initiative of the SVP. However, by a margin of only 2,754 votes, the Swiss people rejected this initiative which would have de facto abolished the right of asylum. It was the narrowest vote since 1848, the year the Swiss federal state was founded. Switzerland would have been the only country in the world with such a drastic regulation.

As a footnote to this episode: That very day at 3 pm, I signed my letter of resignation as the director of the Federal Office for Refugees. At 4 o'clock the last two districts of the city of Zurich overturned the outcome, and I could withdraw my resignation.

Let me come back to a more recent past. We have seen a fundamental shift in the composition of immigration to Switzerland over the years. Of those currently in active employment who migrated to Switzerland between the mid 80s and mid 90s, nearly 40% have no vocational training. Only 22% have a tertiary training certificate. These proportions are fundamentally different in the case of the latest immigrants. Of those in active employment who came to Switzerland after the Free Movement of Persons Act came into force (mid 2002) only 17% have no vocational training and more than half of the immigrants (54%) possess a tertiary training qualification. As a comparison, only 34 percent of the Swiss labour force obtained a tertiary degree. In other words, the most recent wave of immigrants has raised the level of qualification and training amongst our working population.

The reason for these changes is not just the realignment of the policy on foreign citizens. Economic changes were undoubtedly of greater importance as the structure of immigration has adapted to the demand from companies for skilled workers. During the 90s the Swiss economy carried out a number of important restructuring programmes. Globalisation and the technological revolution increased the demand for more highly skilled workers. Switzerland was extremely successful in benefitting from these developments – thanks to a good education system as well as its open international approach.

### *The Effect of the Free Movement of Persons – Provisional Assessments*

The introduction of the Free Movement of Persons Act (FZA) in 2002 represents the greatest reform of immigration policy since 1931. As a matter of fact, the current FZA is comparable to the immigration policy Switzerland had before 1931. In the alien act of 1931 Switzerland, like most European countries very much shaken by the aftermaths of the worldwide economic depression, constrained firmly the arrival of foreign workers. It will take a few years before the consequences of the dramatic changes introduced in the new FZA in 2002 can be properly assessed. Therefore, our current knowledge is of a provisional nature. I am sure that the next years will be full of good and bad experiences, full of political debates and upheaval.

### *What Is Our Present Knowledge?*

1. There has been a shift in immigration to Switzerland towards the EU states (following a previous trend towards increasingly more distant European countries).
2. As in the 19<sup>th</sup> century, Germany has now become one of the most important countries of origin. This indicates a growing integration between the national economies across the borders. Furthermore, the number of local immigration has increased. Cross border employment (Grenzgänger) has risen by one third since the introduction of the FZA.
3. Economic growth was less hampered by the shortage of skilled workers. The FZA provided a stimulus to economic and population growth as well growth in employment. It is one of the main reasons why the Swiss economy is in a healthier condition than our neighbouring countries. Since the introduction of the FZA the Swiss foreign population increased by 260,000 or 18 percent. 300,000 additional jobs (+8 percent) have been created since 2001. Over

recent years the level of immigrants measured against the size of the population has in fact been higher than the figures for the classic immigration countries of the USA and Canada. Switzerland's share of foreign born citizens is the highest of all OECD countries after Luxemburg together with Australia and before New Zealand, Canada and Ireland.

4. In the past there was controversy about the assessment of the impact on unemployment. Increasing competition might lead to increased unemployment. The positive consequences for employment and productivity could counter this effect. We have not witnessed a crowding out effect of Swiss employees. On the contrary, when foreign labour was in demand, demand for Swiss employees was equally high!
5. Despite the strong demand for higher skilled workers, labour costs did not show any inflationary rise.
6. Eventually, income distribution. Let me dwell on this very sensitive topic more in detail. What can we say?

First, immigration from the EU did not lead to erosion on the lower pay levels. This was helped by the accompanying measures of wage controls. Nonetheless, the situation for non-skilled workers has not improved. Whilst there was virtually no additional downward pressure on the salaries of low-skilled workers, the proportion of these persons who were unemployed was relatively high and it was not possible to significantly increase their participation in the working population.

Secondly, there is evidence that higher levels of training and education have resulted in salaries rising at a less significant rate due to immigration. It had an equalising effect on pay levels.

#### 4. The Role of Policy

Immigration policy is an area which is shaped very much by policy. I know of no country in which immigration is completely unhindered. Freedom of movement within integrated economic regions also follows certain rules and is not left exclusively to market forces or individual free choice. Migration policy rightly plays a key role. Immigration has consequences for wage levels, immediately making it a political topic. If immigration or GDP increases but this increase does not benefit the indigenous population then this immigration will in all likelihood face fierce opposition.

*What Economic Consequences Should Policy Bear in Mind?*

- A target function of any government is to promote the welfare of its population. As I mentioned before, immigration has a high potential for the economy and the society. Policy has to make use of this potential for the benefit of the citizens already living here. The opening of the labour market increases competition for the jobs available. Employees do not like competition in their field. On the other hand we know that competition is one of the best mechanisms to achieve progress in economy and society. People will accept immigration and increased competition if they realize that they can also benefit from the advantages.
- The welfare of the population is also closely dependent upon the strength of domestic companies. In matters relating to immigration the voice of the economy is therefore very important.
- The policy should not only take account of the static but also the dynamic impact of immigration. In our economic policy we emphasise this aspect through our policy on economic performance. We fundamentally promote policies that make the Swiss economy more dynamic and in increasing its productivity and efficiency. Immigration policy can also contribute significantly towards achieving these objectives.
- Policy must provide an answer to the questions of redistribution. The acceptance of immigration would weaken if it led to a further widening of the gulf between rich and poor. The weakest in society deserve our attention.

The accompanying measures for the free movement of persons are a prime example of this compensating mechanism. The demand of job holders that the opening up of the labour market should not lead to a systematic undermining of the standard conditions on pay and employment is understandable. Without the consent of the workers the FZA would have had virtually no chance of success in referenda.

Sure, the implementation of the accompanying measures does represent a certain form of intervention within the free wage negotiation process. However, this is the price we have to pay if we want to open up the Swiss labour market.



## 5. Conclusion

Immigration is a highly political subject and therefore often used as a political tool. This is reason enough for government, politicians and citizens to declare their position on matters relating to immigration. However, policy needs guidance. To give guidance, one needs to know the consequences of the measures proposed; to know the consequences one needs research. Who is better apt to fulfil this undertaking than the universities?

The subject of research has not yet been exhausted by any means. On the contrary, there is still today insufficient data and empirical knowledge available in many areas in order to give a sound assessment of the consequences of migration in general and the free movement of persons in particular. The questions are numerous:

- What is the exact effect of migration on the salary structure?
- How does immigration affect employment and unemployment?
- What should the Government do if immigration continues unabated?
- Does immigration has a slowing effect on structural adjustment of the economy?
- What consequences does immigration have on the housing market and its prices?
- What are the factors for a successful economic and social integration of immigrants?

These are only a few questions. You have a large field of research and I would welcome your assessment.