

A THEORETICAL ANALYSIS OF THE SWISS FOREIGN WORKER PROBLEM

by 7214

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CHAPTER I

SOME HISTORIC-POLITICAL ASPECTS OF THE PROBLEM

The history of employing foreign labor in Switzerland dates back to about 1860. As for the period after world war II, the level of foreign population (and foreign workers) has been growing steadily, both absolutely and relative to the total population.^{1,2} This trend can be observed in table 1.

TABLE 1: THE FOREIGN WORKERS IN SWITZERLAND

YEAR	# OF FOREIGNERS (IN MILLIONS) ³	AS % OF TOTAL POPULATION
1950	.279	5.9
1960	.495	9.2
1965	.810	13.8
1969	.972	15.8

Source: Eidgenoessisches Volkswirtschaftsdepartement. Die Volkswirtschaft. Heft 4, 1970, p. 159.

¹The absolute number of foreign workers reached its peak in 1964, but the proportion of foreign population continued growing.

²Although the percentage of the foreign population in relation to the Swiss population was almost as high in the pre world war I period as in recent years, the present study will consider only the post world war II period.

³Excluding foreign officials

However, in recent years, there has been a growing hostility toward such workers. The problem appeared in several manifestations, out of which the following attracted nationwide political attention:

- 1) During 1963, the "Party Against Foreign Penetration Through Southern Europeans" was established.
- 2) During 1965, the Democratic party of the canton of Zurich "initiated"⁴ a limit on the foreign workers. This was shortly after the "Italian Agreement"⁵ between the Swiss and the Italian government, which was very much disputed in Swiss circles.⁶
- 3) Shortly after this incident, another "initiative" was put forward before the public that intended to reduce the foreign population to 10% of the Swiss population (from the current level of about 16%) in four years. This "initiative" was defeated (in a national vote in June 1970) by a vote of approximately 54 to 46.
- 4) During the past year, a member of the house of representatives planned to "initiate" a bill that would tax those employers who employ three or more foreign workers. A payroll tax applied to the wage bill was an attempt to reduce the level of the foreign population to 10% of the Swiss population, from the current level of about 16%.

⁴"initiate" or "initiative", in this context, stands for a political process within which one can ask for a change in the constitution, if 50,000 valid signatures (of voters) can be collected within 6 months.

⁵The "Italian Agreement" regulates such issues as hiring, immigration, permits of stay, conditions of work and pay, social rights and equality, etc., as they apply to the Italian workers in Switzerland.

⁶This "initiative" was withdrawn in 1968 due to certain attitudes of the legislative and executive branches of the government.

5) In certain segments there is still an attempt to obtain a constitutional guarantee that at no time the foreign population will exceed one half million (which does not include a maximum of 150,000 seasonal workers and 70,000 workers who cross the border every day).⁷

Hence, the purpose of the present study is to examine the following basic questions about the foreign worker problem:

- 1) What are the economic incentives and reasons behind the problem which appears to be a sociological problem at first sight?
- 2) What political and sociological factors contribute to and perpetuate the problem?
- 3) What economic and social policies can one suggest to alleviate the problem?

The rest of the study is organized in the following way: Chapter II will identify the various dimensions of the problem as analyzed by other investigators. Chapter III would then examine the economic basis for the foreign worker problem. It will be shown that the framework of externalities is the best guide for the analysis of the problem. Having done so, the policy conclusions that can be drawn will be presented in chapter IV. Chapter V will be an extension of the social policies which might be necessary to complement the economic policy in achieving the solution. The final chapter will provide a summary assessment of the findings.

⁷Tages Anzeiger. Zurich: March 30, 1971, p. 3.

CHAPTER II

VARIOUS ECONOMIC AND SOCIOLOGICAL ASPECTS OF THE PROBLEM

Experts feared that after world war II unemployment would occur as a result of the economic transition from war to peace time. The expected unemployment, however, did not come about. On the contrary, there was an excess demand for labor. Though the labor unions protested, the government approved the importing of foreign labor almost unrestrictedly. This was believed to be only for the short run, since one still expected a "delayed" economic slump. The government had a "rotation" policy for foreign workers, so that they would only stay for a few years in Switzerland and not be eligible for a permit of permanent stay (with this method one also tried to satisfy the labor unions).^{8,9,10} Under this policy, the firms could not only operate at their full capacity, but they could also expand relatively fast and capture a better share of the foreign markets as well as the fast developing domestic market. They adopted (as can be imagined) a relatively labor intensive approach to reach their goals. On the macro economic level, this policy enabled the economy to attain a relatively rapid economic growth and, at least for a short time, economic stability with wage increases lower than those in other European nations.

⁸The "rotation" policy protected the jobs of the Swiss.

⁹Braun, Rudolf, Sozio-kulturelle Probleme der Eingliederung italienischer Arbeitskraefte in der Schweiz (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970,) pp. 15-17.

¹⁰Neue Zuercher Zeitung, "Grundsaeetze der Fremdarbeiterpolitik der letzten zwanzig Jahre", Zurich, May 13, 1970, # 216.

Within this policy, the foreign workers were considered to be "buffers" to be used to smoothen out economic cycles.¹¹ By the early sixties, however, the economy experienced inflation and experts came to recognize that importing foreign labor was primarily responsible for the inflationary cycle and the destabilizing effect. This was believed to be the case mainly because of the greater demand for secondary investments¹² which came about within a relatively short period of time as a result of employing foreign workers.^{13,14,15} There is also some indication that the foreign workers did not save as much as expected and consequently, their patterns of consumption had some inflationary effects.

Once it was realized that the "buffer"-theory did not work, government authorities recognized the functional need¹⁶ for a policy of assimilation of the current foreign population. The alternative policy of reducing the foreign workers and of restricting further importing of such workers was not followed either (perhaps as a precaution against deflation?). The first step toward assimilation was giving more foreigners the permit for permanent stay

¹¹Under the "rotation" policy, the foreign workers could have been sent home had their labor not been needed any more.

¹²Secondary investment represents mainly investment in infra structure (e.g. housing, hospitals, transport facilities etc.) and in consumer goods industries etc.

¹³Neue Zuercher Zeitung, "Grundsätze der Fremdarbeiterpolitik der letzten zwanzig Jahre", Zurich, May 13, 1970, # 216.

¹⁴op. cit., pp. 15-17.

¹⁵Nydegger, Alfred, "Das Problem der auslaendischen Arbeitskraefte im Rahmen der schweizerischen Konjunkturpolitik", Schweizerische Zeitschrift fuer Volkswirtschaft und Statistik, 1963, # 4, p. 324.

¹⁶It was the only functional alternative to save the stability of the economy and minimize any loss in economic growth.

and abolishing the "rotation" policy. The foreigners had either: 1) a permit of work or stay (on a yearly or seasonal basis), or 2) a permit for permanent stay.

TABLE II: PERMANENT PERMITS FOR FOREIGN WORKERS

YEAR	# OF FOREIGN WORKERS (IN MILLIONS)	% OF FOREIGN WORKERS WITH PERMANENT PERMIT
1960	.435	31.7
1965	.676	29.8
1969	.659	48.0

Sources: Eidgenoessisches Volkswirtschaftsdepartement. Die Volkswirtschaft. Heft 11, 1969, p. 548.

Eidgenoessisches Volkswirtschaftsdepartement. Die Volkswirtschaft. Heft 4, 1970, p. 155.

The foreign labor and the foreign population increased quite remarkably (foreign labor only until 1965) despite the recommendation (by the Spitzenverbaende zur Konjunkturlage, in 1962) that foreign labor should not be increased significantly.

TABLE III: GROWTH OF THE FOREIGN POPULATION IN SWITZERLAND

YEAR	SWISS POP. (IN MILLIONS)	FOREIGN POP. ¹⁷ (IN MILLIONS)	FOREIGN POP. IN % OF TOTAL POP.	% OF FOREIGN WORKERS FROM ITALY
1950	4.430	.279	5.9	68.0
1960	4.848	.495	9.2	69.7
1965	5.055	.810	13.8	66.3
1969	5.193	.972	15.8	60.5 ¹⁸

Sources: Eidgenössisches Volkswirtschaftsdepartement. Die Volkswirtschaft. Heft 4, 1970, p. 159.

Braun, Rudolf, Sozio-kulturelle Probleme der Eingliederung italienischer Arbeitskräfte in der Schweiz (Erlenbach-Zürich: Eugen Rentsch Verlag, 1970,) p. 37.

Hence, government and firms did not only bring in more foreigners, but they also decided that the foreign population had to be assimilated as well as possible¹⁹ because only assimilation, together with stabilization efforts, were believed to secure further economic growth in Switzerland. In addition, some segments of the Swiss population emphasized that one should not underestimate the assimilative capacity of the Swiss indigenous population.²⁰

With the shift in policy in the early sixties, economists have become increasingly aware of the immense costs of establishing a satisfactory infrastructure, and the gap between entrepreneurial interests and a rational macro economic policy. One was aware of the slower rise in productivity, the delay in structural changes, the increased profits (also because of lower

¹⁷Excluding foreign officials

¹⁸In 1969, 14.5 % of the foreign workers were from Spain, 8.7 % from Germany, 5.6 % from France, 3.0 % from Austria and 7.7 % were from other countries.

¹⁹The fact that the Swiss economy was, already in the early 60's, very dependent on the foreign labor contributed significantly to the shift in policy.

²⁰Wehrli, Bernhard, "Die Fremdarbeiterfrage im Lichte der wirtschaftlichen Ueberexpansion", Schweizer Monatshefte, 1962, # 42.

fixed costs) and the general depression of wages which importing foreign labor brought about.^{21,22} In 1964:

34.1 % of the employers and superiors considered the utility of
employing foreign labor as being the same as with Swiss labor.

43.1 % thought that the utility of employing foreign labor was lower.

Despite the low utility, they thought that renouncing foreign labor was impossible. Asked for their opinion on the macro economic benefits of employing foreign labor,

52.4 % of the entrepreneurs and superiors emphasized unrestrictedly
the national benefits of employing foreign labor.

29.2 % doubted the above or made various kinds of restrictions in
their evaluation, while

18.5 % were fully satisfied with the recognition that without foreign
labor the Swiss economy cannot function.

"It is needless to say, that a great deal of self-interest on the part of the employers and superiors is involved in this analysis of the micro- and macro-economic benefits."²³

²¹Nydegger, Alfred, "Das Problem der auslaendischen Arbeitskraefte im Rahmen der schweizerischen Konjunkturpolitik", Schweizerische Zeitschrift fuer Volkswirtschaft und Statistik, 1963, # 4.

²²Keller, Theo, "Volkswirtschaftliche Aspekte des Fremdarbeiterproblems", Aussenwirtschaft, 1963, # 4.

²³Braun, Rudolf, Sozio-kulturelle Probleme der Eingliederung der italienischen Arbeitskraefte in der Schweiz (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970,) pp. 141-142.

In a historic perspective, some economic aspects and problems of employing foreign labor were pointed out. However, there is a significant socio-political dimension of the problem which cannot be separated from economics. The following section will present a summary of the findings on this issue.

Mostly, the prime motive for foreigners to come to Switzerland is a material one. So, their satisfaction with the pay they receive determines largely also their satisfaction with life and work in Switzerland and their disposition to adjust to Swiss life and work. After having achieved certain materials goals they often leave. Research in 1952, 1955 and 1959 showed that 70 - 75 % of the foreigners (who are subject to immigration control) spend less than 3 years in Switzerland uninterruptedly.²⁴ When a sample of Italians was asked (in 1964) "Suppose, that today you are offered a job in Italy under the same working conditions, and paying the same income as you make now in Switzerland, would you, in this case, move to Italy or remain in Switzerland?"

52.2 % said that they would go to Italy right away

15.5 % tended in this direction but were not completely convinced

5.2 % said yes but attached some condition (mainly that the job has to be offered in their home region), only

12.8 % were convinced that they want to stay in Switzerland, and

7.3 % tended in the direction to stay in Switzerland, while

2.9 % attached some condition to it.²⁵

²⁴Ibid., p. 59.

²⁵Ibid., p. 438.

The adaptation to Swiss life and customs is often inconvenient for the foreigners and many do not want to take this inconvenience upon themselves. Separation from the Swiss is often voluntarily maintained (especially outside of work) by the formation of a subculture which allows the foreigners to renounce interaction with the Swiss, to ease the discomfort of living abroad and to eliminate some of the frustrations that occur due to the need for adaptation. But with a subculture it is also possible that stereotypes are maintained or created which could have negative effects.²⁶

On the other hand, the Swiss have many ways by which they maintain "apartheid attitudes" toward the foreigners and discriminate openly and indirectly. This is done mainly through maintaining stereotypes. It is also done by excluding foreigners from various spare time activities and community celebrations of the Swiss²⁷, by housing discrimination and by not giving the foreigners political rights, etc.

This attitude may be partially due to the Swiss often feeling uneasy, threatened or disadvantaged because they have to live with the foreigners, have to compete with them on the housing market (and elsewhere), and have to work with them. They also maintain often that foreigners do not deserve the wages they get; they see themselves at work sometimes in a minority, think that the working atmosphere has deteriorated, and that their culture is being threatened, etc.

Analyzed according to professional standing, the following trend can be observed in the Swiss labor force: The frequency of positive attitudes (toward Italians) increases with increasing distance from the professional

²⁶ Ibid., pp. 330-331.

²⁷ Ibid., pp. 340-341.

and social status of the foreign workers. (For example, 13.6 % of all Swiss workers show a negative, xenophobic attitude toward the foreign workers, while only 4.5 % of the professionally independent Swiss do so.²⁸) However, one must consider not only the attitudes of individuals but the group interest as well. Referring to the entrepreneurs and superiors, Rudolf Braun points out that it is remarkable how the group thought of the high foreign population as being something unchangeable and how the responsible entrepreneurs gave little thought to alternative solutions.

In view of the sociological, political and cultural problems occurring due to the high number of foreign workers, the entrepreneurs should be able to present better statistical proof for justifying such a high employment of foreign labor.²⁹ This fact has never been taken seriously in analyzing the economics of the foreign workers problem. At the same time, it is not enough to recognize only that the standard of living did not increase as a result of importing foreign labor and that the only advantage goes to the foreign workers themselves in the form of skills that they learn abroad, which can eventually be taken home should they decide to leave.³⁰

Neither is it meaningful (in political, sociological and economic analysis of the Swiss foreign worker problem) to overlook the important fact that, already in 1961, of approximately 200 Swiss workers, with an average age of 25 - 26 years and mainly employed by the textile, metal & machine and hotel & restaurant industries, only 42 % answered "Yes" when they were asked

²⁸Ibid., p. 426.

²⁹Ibid., pp. 141-142.

³⁰Foehl, Carl, "Stabilisierung und Wachstum bei Einsatz von Gastarbeitern", Kyklos, Vol. XX, 1967, Fasc. I.

"Would you increase the quota for foreign workers, should there be a need for it?".^{31,32}

With the above analysis in mind, it is justified to conclude that economic analyses and policies have not been structured in such a way that the socio-political problems can be resolved at least partially. The foreign workers problem is not only a problem of economic growth versus no economic growth, or of stability versus great cyclical fluctuations; it has above all a micro economic dimension which influences individual and group behavior. There is also a lack of recognition that there are certain political and social forces at work that tend to aggravate the problem once it arises. To show this will be the subject matter of the next chapter.

³¹Fischer, Hardi, "Wege zur wissenschaftlichen Erfassung der Situation der auslaendischen Arbeitskraefte in der Schweiz", Industrielle Organisation, 1961, # 6, p. 275.

³²A) In 1965 it was established that:
 50.8 % of the labor force is foreign in the construction industry
 44.9 % of the labor force is foreign in the textile industry
 46.2 % of the labor force is foreign in the clothing industry
 43.8 % of the labor force is foreign in the soil, rock and glass industry
 38.6 % of the labor force is foreign in the restaurant and hotel industry
 Among firms these figures fluctuate and, presently, some industries may even have a higher percentage of their labor force foreign.

B) In absolute numbers, we had the following picture in 1969:

	<u># of foreign workers (in thousands)</u>
Clothing and textile industry	69.9
Metal and machine industry	124.7
Construction industry	152.2
Restaurant and hotel industry	76.2
Business clerk & management and technical professions	45.1
Others	191.1
Total	659.2

C) In 1969 it was estimated that approximately 5 % of the foreign workers were in the primary sector, 20 - 25 % in the construction industry, 40 - 45 % in the secondary sector (excluding construction industry) and 30 - 35 % were in the tertiary sector.

Source for A) and C): Allenspach, Heinz, "Die auslaendischen Arbeitskraefte im Wirtschaftsgeschehen der Schweiz", Schweizer Monatsheft, 1969, # 5, p. 485.

Source for B): Eidgenoessisches Volkswirtschaftsdepartement, Die Volkswirtschaft, Heft 11, 1969, p. 549.

CHAPTER III

THE THREE MAJOR FORCES BEHIND THE FOREIGN WORKER PROBLEM

The last two chapters dealt with the post world war II history of the foreign worker problem in Switzerland and the analyses thereof. Some of the manifestations of social conflict and the attitudes behind them and the position of certain interest groups were pointed out. There are strong differences in opinion among Swiss as to the causes and consequences of the foreign workers problem and the policies that should be adopted. As the foreigners get politically better organized³³, it is to be expected that the conflict (though foreigners generally have no political rights) tends to become even more visible and the differences of opinion acquire an added dimension. These two aspects of the problem suggest the outgrowth of social friction over the years.

In the past, the Swiss firms, interested in attaining their objectives, employed foreign labor at a low direct cost. Though the number of foreign workers was relatively small initially, the competitive forces required other firms to follow suit thereby attracting more foreign workers. As long as the number of foreigners was small, the social conflict did not occur; but as the number grew and the social threshold was surpassed, various problems and conflicts arose. The firms, however, continued to pay only the (low) direct cost of labor, although their employment practices (together with immigration policies) were accompanied by a well recognizable negative spill-over effect (externality). The society at large has had to pay for this

³³ Buetler, Hugo, "Die Fremdarbeiterfrage - ein Bericht", Schweizer Monatshefte, 1969, # 5.

external cost. Economically speaking, we deal here with a problem that is analogous to the congestion and pollution problem.³⁴ The firms have hardly an incentive to share in the social cost until they are forced to do so.

As Rudolf Braun points out, social conflict has moved into almost all levels of society as a consequence of the large foreign population.³⁵ That the social conflict is visible is sufficient to demonstrate the existence of a social threshold even if it cannot be defined precisely.

To obtain a unifying framework of analysis, we now develop a model based upon economic incentives so as to, 1) identify the possibility of technological choice by firms which will cause the social threshold to be surpassed in choosing the foreign worker component, and 2) enable us to examine the alternative solutions which will keep the foreign worker component within the limits of the social threshold.

Let us assume that the firm has two objectives: 1) to provide the same amount of capital for each worker that it employs in the process of its growth³⁶, and 2) to maximize the marketable output. Also, the neo-classical assumptions about the production function are made: that is,

$$Y = Y(K, L), \text{ where}$$

Y = output, K = capital, L = labor

and subject to constant returns to scale. This enables us to rewrite the production function in the form

³⁴Rothenberg, Jerome, "The Economics of Congestion and Pollution - An Integrated View", American Economic Review, Vol. 60, May 1970, pp. 114-121.

³⁵Braun, Rudolf, Sozio-kulturelle Probleme der Eingliederung italienischer Arbeitskraefte in der Schweiz (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970).

³⁶This assumption is basically a simplifying device and the analysis will not alter substantially if we allow capital deepening.

$y = y(x)$, where

$y = Y/L$ = output per unit of labor, and

$x = K/L$ = the capital intensity.

Assume further that the labor force employed by the firms grows at a constant rate n , and write:

$$L(t) = L_0 e^{nt}.$$

Under these assumptions, the investment necessary to equip the additional labor employed with the same x would require:

$$\text{Investment} = xL = xnL.$$

Hence, the marketable output = $Y(K, L) - nxL$. Since L does not depend on x , the firm may be conceived of as choosing x , the technology, so as to maximize $y(x) - nx$. The first order condition for this can be stated as

$$y'(x) = n.$$

The result can be illustrated in Figure 1.

As the firms employed more and more foreign labor after the second world war, they moved toward y_1 and x_1 where they could maximize their marketable output. But on the way they surpassed the social threshold F^* ³⁷ and employed F_1 foreign labor. In doing so, social conflict and social costs occurred.^{38,39} Should it be desirable to solve the problems that have

³⁷ F stands for the working and non-working foreign population. It can be safely assumed that the increase in the non-working foreign population is due to importing foreign labor. Since not only foreign labor caused society to go beyond its threshold but the whole foreign population as such, F has to be denoted as above.

³⁸One could also argue that, in the process of moving from x_0 to x_{F^*} , the production function y shifted, either because of a negative or positive change in productivity. For analytical purposes only, I would like to make the analysis in a more simple, static fashion, since it will yield the same results.

³⁹The positively sloped F/L -curve is typical for Switzerland's pattern of growth. As economists realized, capital intensity (and therefore productivity) did not increase as fast as it would have with an inelastic supply of labor. Investment was geared more toward economic expansion rather than toward substituting labor.

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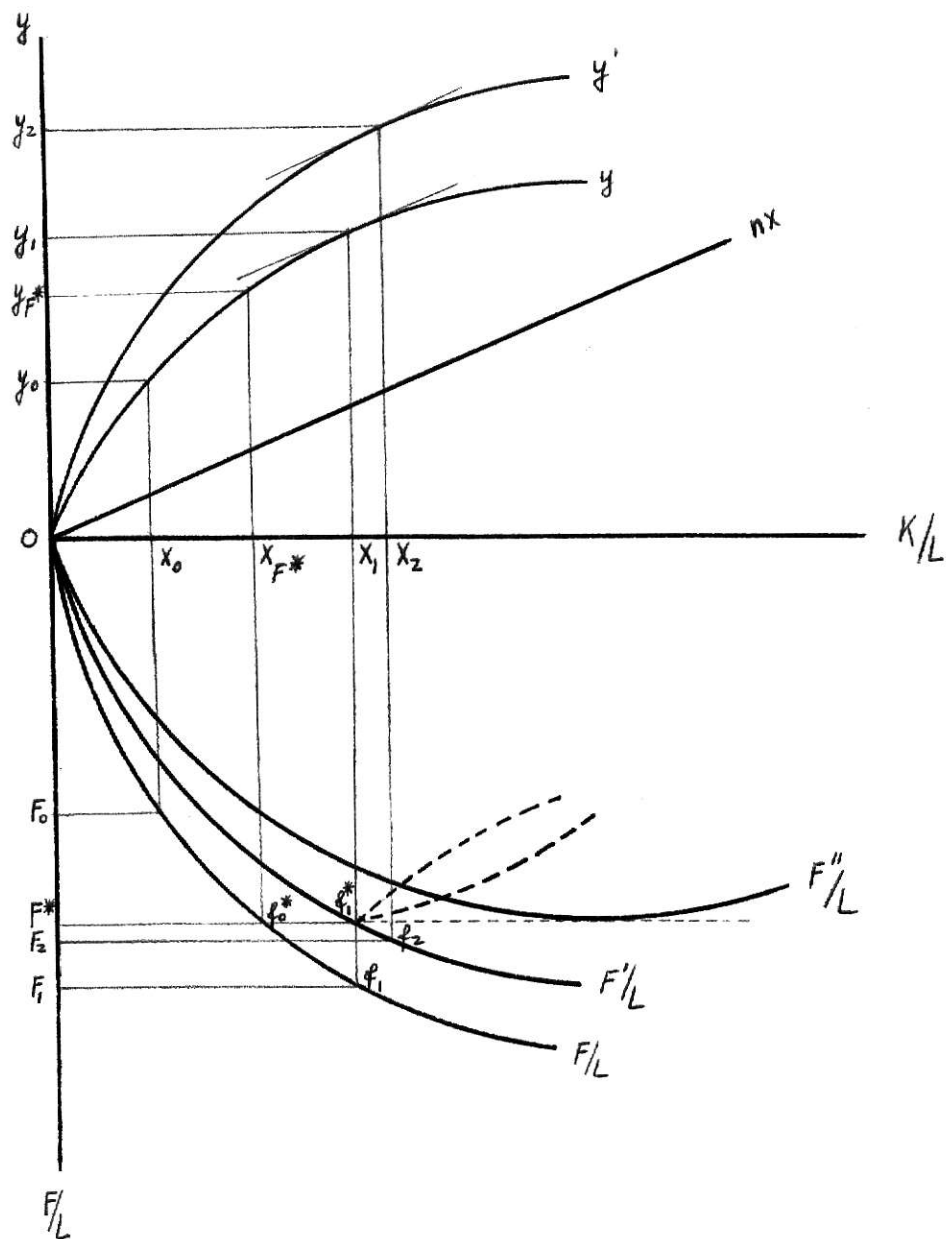


Figure 1. The choice of technology and the foreign worker component.

occurred as a result of surpassing the social threshold, one would have to go back and operate at $F^*f_0^*$ or below. If everything remains unchanged, and one moved back to $F^*f_0^*$, a loss in output would be bound to occur. Disregarding what would happen to the unemployed foreign population, the question can be asked whether there is any way to prevent a loss in marketable output. If some labor saving technique (better management or a technology that allows for substitution of labor) can be found, and if, as a result, the F/L-curve shifts upwards just enough that it will cut f_1^* , the firms will be able to operate at F^* & x_1 , and will not have to sacrifice any marketable output.

Any such shift, however, does not yet mean that, as K/L increases, no additional foreign labor will be needed anymore. It just means that less additional foreign labor is needed than before. In such a case, the economy is still not primarily geared toward substitution of labor and the productivity may still lag behind. f_1^* is merely a short run solution which allows firms to operate at F^* and x_1 without having to sacrifice marketable output, but does not absolutely allow for any future growth. The following point will make this clear. Should for any reason the production function shift to y' and the capacity to substitute labor not change, the firms could only maximize their marketable output by employing F_2 foreign labor. But this again would mean operating beyond the social threshold F^* . To be able to have any future economic growth would imply that a technology can be found which would discontinue the positively sloped F/L-curve at x_1 and provide for an F/L-curve with a zero or negative slope as the capital intensity increases beyond x_1 .

Another solution, if the technology can be found, could come about with a shift in the F/L-curve from F/L to F''/L . Future economic growth could be secured with such a shift.

Finally, a solution could be found by increasing the social threshold F^* , or by any combination of an increase in F^* and a shift in the F/L -curve through technology or some other labor saving technique.

The above analysis endeavored to show how economic causes resulted in the society exceeding its social threshold with respect to the foreign labor and what it would take to be able to operate at F^* without a sacrifice in marketable output. The following section will investigate the other social and political dimensions that contributed to the problem.⁴⁰

According to C. W. Mills: "When a handful of men do not have work and do not seek jobs, we may look for the causes in their immediate situations and character. But when twelve million men (referring to the U.S.) are unemployed, then we cannot believe that all of them suddenly 'got lazy' and turned out to be 'no good'. Economists call this 'structural unemployment' - meaning, for one thing, that the men involved cannot personally control their job chances. Now, what individual men are usually aware of, and what they usually try to do, are limited by the horizon of their specific milieu. Most men do not transcend the boundaries of their jobs and families and local communities. In other milieux which they encounter they are and they remain visitors. That is why 'great changes' are out of their control, for great changes, by definition, are those whose causes lie outside the ordinary milieu of ordinary men but which nevertheless affect their conduct and their outlook. And that is why in periods full of such changes many ordinary men feel that they are 'powerless', which in all sober fact they are. Mass unemployment,

⁴⁰

Though private interest of individual business firms created the social conflict, the existence of political power which rationalized the decision is required to fully substantiate the argument. Since the individual may have a social threshold but may not be capable of influencing the political power, he has to submit to it to a certain extent.

for example, does not originate in one factory or in one town, nor is it due to anything that one factory or one town does or fails to do. Moreover, there is little or nothing that one man, one factory, or one town can do about it when it sweeps over their personal milieu."⁴¹

There are some men, however, who are not limited by the narrow milieux but have access to many more milieux than others and some, in addition are so placed in the social structure that they can look down, so to speak, upon the milieux of ordinary men. In the most general meaning, this is the position of the elite. The elite are those who command the leading institutions, whose commanding positions so place them in their social structure that they transcend, to a greater or to a lesser extent, the ordinary milieux of ordinary men and women. The elite is increasingly more able to do so because of increased efficiency of the institutional means of power and the means of communication that tie them together. The typical institutional unit has become enlarged, has become administrative, and in the power of its decision has become centralized. This is true for all main domains of power: economic, political and military. In addition, the decisions that these domains make are not exclusively limited to one domain but they determine and depend on decisions made in other domains. There is no longer, on the one hand, an economy, and on the other, a political order unimportant to money-making.⁴² It is very clear, e.g., that so long as concrete investment decisions are made not by politicians but by private enterprise, all the politician can do is to

⁴¹Mills, C. W., "The Power Elite: Military, Economic and Political", Arthur Kornhauser, ed., *Problems of Power in American Democracy* (Detroit: Wayne State Univ. Press, 1957), pp. 154--167.

⁴²Mills, C. W., "The Sources of Societal Power", in Amitai Etzioni and Eva Etzioni, ed., *Social Change* (Basic Books, Inc., 1964), pp. 125 - 133.

work hand in hand with the investment decision makers. A favorable "climate" for investment has to be created in order to promote investment. This does not mean that no policies are ever set up that sometimes discourage investment, but as a whole politics (especially economic policy) is geared to guarantee an overall profitability of the enterprises in the economy to which other social or economic goals often are subordinated.⁴³ It is clear that the power elite today involves the often uneasy coincidence of economic and political (and military?) power.

We now can see clearly that the Swiss citizens were subjected to the social cost and did not have any other choice but to accept it as such because of a certain distribution of power.⁴⁴

Though the power elite formulates policy to satisfy the private business interest, it does not as yet follow that there is a social threshold, let alone it being exceeded; we might then ask ourselves the question: why does the social threshold exist?

⁴³Huffscheid, Joerg, Die Politik des Kapitals: Konzentration und Wirtschaftspolitik in der Bundesrepublik, (Frankfurt: Suhrkamp Verlag, 1969), p. 134.

⁴⁴I would like to define power* as being latent force and force as being manifest power. Institutionalized power is called authority* of which there are 3 kinds: 1) rational authority, which implies harmony of interest; 2) irrational (overt) authority which implies disharmony of interest; 3) anonymous authority**.

*Bierstedt, Robert, "An Analysis of Social Power", The American Sociological Review, XV, 6, pp. 730 - 738.

**Fromm, Erich, The Sane Society, (Greenwich, Conn.: Fawcett Publications, Inc., 1968), pp. 90 - 91.

From early childhood on, everybody is subjected to a phenomenon called socialization. Through socialization the child learns his social behavior primarily by following the modes and models of behavior around him. Indeed, he has little choice. He learns how to behave towards people of other ethnic and religious or racial groups by seeing how other people behave, and by automatically participating in the behavior patterns which already exist. These behavior patterns are not only the substance of "good" or "bad" values and attitudes, they are also the breeding conditions for "good" or "bad" values and attitudes. Everybody is subjected to socialization for his whole life. Subsequently, socialization has a great impact on the formation of one's identity and "frame of reference". When a population and the individuals in that population, like in the case of Switzerland, have had to live together with an increasing number of people who got socialized very differently (in content and/or process), social conflict is bound to occur (and in fact has occurred). There was and there is high pressure on both the Swiss and the foreign inhabitants to go through a drastically altered socialization (in content and/or in process) which, of course, would mean taking on another set of values and attitudes ("good" or "bad") and in that process redefine one's identity and change one's "frame of reference". However, from a macro point of view this is delayed because every group or society tries to maximize the compliance of its members to the values of that group or society, and (hence) from an individual point of view this would be a

painful and inconvenient road to go and human beings often are not willing to go this road.^{45,46,47,48,49}

⁴⁵ From the above it can be concluded that:

- 1) Social change is dependent on time.
- 2) Social conflict is (in the Swiss case), at least partially, due to the pressure that is put on a population, or segments of that population, to undergo a different socialization (which may differ in process or in content from the traditional one).

- ^{46*}
- a) Contrary to pollution where we, e.g. deal with chemistry and inert bodies, the social threshold will never be exactly predictable or it may be entirely unpredictable.
 - b) The social threshold can be influenced (increased) through:
 - 1) increasing the knowledge in social sciences, 2) increasing the level of self-reflective critical thought and discussion (where 1) is also dependent on 2)). The first will (assuming that scientific knowledge can be freely distributed) help individuals to understand themselves and society better. The second is the procedure needed for the rationalization of attitudes by means of the justification of a choice of standards. This is the case for both metatheoretical and practical problems and decisions. The level of both 1) and 2) can be increased by a formal, informal or incidental learning process. Accordingly, there may or may not occur a cost in doing so (discounting opportunity cost).

* Habermas, Juergen, *Toward a Rational Society* (Boston: Beacon Press, 1970), p. 7.

⁴⁷ For implications on socio-psychological level see, e.g., Braun, Rudolf, *Sozio-kulturelle probleme der Eingliederung italienischer Arbeitskraefte in der Schweiz*, (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970).

⁴⁸ Cook, Steward W., "A Preliminary Study of Attitude Change", in Michael Wertheimer, ed., *Confrontation: Psychology and the Problems of Today* (Glenview, Ill.: Scott, Foresman and Co., 1970), pp. 130 - 135.

⁴⁹ Raab, Earl; Lipset, Seymour, Martin, "The Prejudiced Society", in Michael Wertheimer, ed., *Confrontation: Psychology and the Problems of Today* (Glenview, Ill.: Scott, Foresman and Co., 1970), pp. 135 - 145.

In sum, it has been demonstrated that there are three significant aspects of the foreign worker problem:

- 1) The private enterprise and the economic incentive tend to create the problem.
- 2) The power elite and the political process rationalizes and promotes the conflict (since the elite acts in the interest of private business).
- 3) Social forces can cause groups and individuals to augment the problem once it arises.

In the next chapter the framework developed in this chapter will be utilized to analyze the policy choices that could alleviate the problem.

CHAPTER IV
ANALYSIS OF VARIOUS POLICIES

Based on the theoretical considerations of the previous chapter, there are basically the following policy choices:

- 1) control migration and F/L-ratio by law
- 2) make both the Swiss and foreigners learn to live together
- 3) spread the foreigners such that there will be approximately the same F/L-ratio in all the geographical locations of Switzerland
- 4) subsidize capital formation that is labor-saving
- 5) compensate foreigners if they in turn choose to leave the country
- 6) a solution through taxing

The above policies will now be examined in more detail.

To set the level of the foreign workers (or foreign population) in Switzerland by law is, for the time being, not feasible because the legal basis would have to be created first.⁵⁰ However, the government policy (the limit on immigration)⁵¹ is such that in 1970 the foreign population increased only by 0.9 % while the level of foreign workers with a yearly or permanent permit decreased by 1.8 %. The policy is clearly one of stabilization if not one of slight reduction. As it will be shown later, this will prove to be an insufficient policy.

⁵⁰ Recall that, in chapter I, we pointed out that in 1970 the "initiative" to limit the foreign population constitutionally failed by a vote of approximately 54:46. Hence, one of two things need be done to establish the legal basis.

- 1) A new "initiative" would have to be put forward, or
- 2) the parliament would have to pass a law.

⁵¹ This authority is granted to the executive branch as a short run measure.

The social threshold can be increased through formal or informal education, which involves certain economic costs. (Should something like "civil rights" laws ever have to be established, law enforcement could only occur at a certain economic cost.) This method, although it will be able to eliminate a certain social cost in the future, will have to be considered in conjunction with the distribution of social costs which will be considered later in this chapter.

There exists an unequal geographical distribution of the foreign population as evidenced by the following table:

TABLE IV: FOREIGNERS IN PERCENT OF THE TOTAL POPULATION IN SOME CANTONS

<u>CANTON</u>	<u>PERCENT (IN 1969)</u>
Geneva (including foreign officials)	31
Tessin	25
Waadt	21
Zurich	18
Solothurn	14
Lucerne	10
Bern	9
Freiburg	8
Uri	5

Source: Eidgenoessisches Volkswirtschaftsdepartement. Die Volkswirtschaft, Heft 4, 1970, p. 159.

By spreading the foreign population approximately equal all over the country, it may be possible to relieve the social conflict and to distribute the social cost better among the whole Swiss population. It is not clear, whether the

redistribution can be achieved through economic incentive or by law. Whether the individual or the firm pays for the social cost also remains an open question.

To subsidize capital formation is rather ironical since the public as a whole, which bears the social cost already, would, most likely, have to pay for it. It would be possible to create an incentive for increased capital formation (which enables the reduction of the foreign labor component) either through a subsidy to the firm financed by payroll taxation⁵² of firms employing foreign labor, or a limit on immigration (which is the present policy) which would compel the firms to adopt a labor saving technology. A subsidy, however, may be unwarranted due to the present immigration policy which limits the firms to obtain foreign labor may automatically bring about sufficient capital formation from the firms acting in their own interest. Should capital formation be subsidized anyway, the wellbeing of the displaced foreign workers will have to be considered.

To bring the F/L -ratio down to F^*/L one could pay foreigners for leaving the country. This policy might be rather difficult for the following reasons:

- 1) It is difficult to assess the compensation necessary to achieve the result.
- 2) New assessments would have to be made periodically, and
- 3) it is difficult to assess the number of people that would be willing to leave the country at a certain level of compensation.
- 4) One might end up paying those who would have gone home very shortly anyway.

⁵² The tax solution will be discussed subsequently.

Whether this policy is economically feasible cannot be ascertained empirically now. The main advantages would be:

- 1) F could be reduced to F^* over a period of time.
- 2) Infrastructure investments could be saved.

The main disadvantage of this policy would be that it is too great a burden on the economy, mainly because firms might not have the proper funds available to shift to a labor saving mode of production.

As pointed out earlier, a pay-roll tax was suggested by Mr. Schwarzenbach. Mr. Schwarzenbach suggested that a pay-roll tax be introduced (with the rate proportional to the percentage of foreign population in relation to the total Swiss population), to be paid 1) by every employer who employs more than 3 foreign workers, and 2) until the foreign population would have been reduced to 10 % of the total population. Even if such a policy could be successful and were politically feasible, it raises questions of equity of taxation.

It is known that:

- 1) Firms cause the impairment (social cost) but they differ in scale as to how much impairment each individual firm causes.
- 2) That the population as a whole bears the impairment, but some segments bear more (e.g. workers), some less.

The impairment, as was shown before, results from being allowed to employ foreign labor at the (low) direct cost while in fact, after the social threshold is surpassed, a social cost has occurred. It is feasible to assume that the social cost (mainly if we comprehend of social cost as having a sociological, socio-psychological and an economic dimension) increases disproportionately more with an increase in the foreign population. Since Mr.

Schwarzenbach's suggestion implies a proportional tax, the firms employing a high percentage of foreign labor would pay less than the marginal social cost they cause, while the firms that employ a low percentage of foreign labor pay more than the marginal social cost they cause. Hence, a proportional tax is inequitable and unacceptable. Furthermore, with a payroll tax alone, possible income redistributions that have occurred or could occur as a result of importing foreign labor are not considered.⁵³

It could also be argued, that those who complain about the presence of the foreign population in Switzerland (or everybody for that matter) compensate firms for dismissing foreign labor or compensate foreigners for leaving the country until F^* is reached.⁵⁴ Assuming political feasibility, we have to conclude that instead of the firms who caused the impairment with their employment practices, the people who were subjected to the impairment have to pay the social cost. Again, this strategy would lead to a redistribution of income and can, therefore, not be accepted.

As the next alternative, let's investigate a theoretical solution that could at least minimize social cost (if not eliminate it). Possibly, this can be done without sending foreigners home, without creating an income-redistribution and, perhaps, past changes in the income distribution can be taken care of by compensation.

First must be investigated what segments of the society bears most of the social cost (be it of an economic, sociological or socio-psychological

⁵³ Mr. Schwarzenbach suggested that the money collected through the payroll tax be used for building a better infra-structure. This cannot be accepted off hand. To what extent such a tax can be used for building a better infrastructure will be discussed later.

⁵⁴ Suggestions along this line (concerning social costs) were also made in the following paper: Coase, Ronald, "The Problem of Social Cost", Journal of Law and Economics, Oct. 1960, pp. 1-44.

dimension), and then must be investigated in what ways changes in the income distribution could have occurred in the past.

It is known that most of the foreign workers are unskilled or semi-skilled when they enter Switzerland and, accordingly, take on an unskilled or semi-skilled function in the labor force. Even if the foreigners are skilled workers, it becomes clear that the lower (working) class is subjected to the highest percentage of interaction with foreigners and seems to be subjected to the highest percentage of social cost. This also is reflected in some statistics that were put together on the basis of an empirical investigation of the problem.⁵⁵

At the end of 1964, the question "I think, a limit for foreign workers is superfluous or inappropriate, respectively" was answered with consent in the following way (first column).

⁵⁵ Braun, Rudolf, Sozio-kulturelle Probleme der Eingliederung italienischer Arbeitskraefte in der Schweiz, (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970), pp. 401, 406.

TABLE V: THE SURVEY RESPONSE

SCHOOLING AND PROF. EDUC.	PERCENT		ACCORDING TO CONTACT WITH FOREIGNERS	
			AT WORK	PERCENT
6 yrs. without apprent.	4.7	32.6	direct contact	9.6 30.9
" with "	5.6	23.1	sporadic "	11.6 40.5
8-9 " without "	9.7	44.1	service "	11.6 46.2
8-9 " with "	13.2	38.6	no "	8.3 33.3
13 and more years	24.0	44.8		
<u>PROFESSIONAL ROLE</u>			<u>LIVING SITUATION</u>	
worker	8.9	30.8	with own house	10.7 38.1
foreman	8.2	27.0	firm owned aptm.	3.4 37.7
manager	7.7	35.7	apartment	14.0 34.2
salaried employees	11.5	45.2	in sub-lease	4.3 29.2
sales and service personn.	18.2	66.7		
independent professions	5.3	52.2		
employers	27.3	40.0		

Source: Braun, Rudolf, *Sozio-kulturelle Probleme der Eingliederung italienischer Arbeitskraefte in der Schweiz*, (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970), pp. 401, 406.

The second column represents the percentage of the interviewed Swiss in favor of liberalizing the immigration laws for the families of foreign workers.

When Rudolf Braun talks about the unwillingness of the Swiss to integrate the foreigners he mentions that again and again answers like "Private contact with Italians ?! - No, it's enough having to deal with them (the Italians) for the whole day at work." are given, with which separatistic behavior is justified. Nevertheless, answers like that give a good indication of feelings that can be generated because of what Rudolf Braun calls "over-saturation (of foreigners) through professional contacts."⁵⁶ However, the problem of maldistribution of interaction with foreigners extends far beyond work and again is conditioned by the social stratification. To quote Rudolf Braun again: "Those who can afford a first class accommodation in a hospital

⁵⁶ Ibid., p. 334.

need not compete for a bed with Italians, does not lie with Italians in the same room and is, therefore, not exposed to the Italian visiting habits. Those who ride first class in a train, will hardly find Italians in their compartment. Those who look for exclusive restaurants will not meet Italian customers..." etc. In other words, Rudolf Braun makes the important point that the degree of social cost an individual has to bear depends to a very large extent on the social stratification. "The few examples above illustrate how differently the problem presents itself to the various social and income groups according to their respective contact situation and interests. Problems of underprivilege are the direct result of this situation; even more so because the underprivileged profit the least from the presence of such a large number of foreign workers. Problems of the underprivileged in relation to the foreign workers problem should be seen as such and should be attacked as such."⁵⁷

A great deal of the social cost occurring to the lower class is in the form of losing social rewards. The situation in which these people find themselves is one in which they are robbed of certain traditional social rewards, while others are not, or not to the same extent. The form of "damage" takes on similar characteristics as the nuisance of noise pollution that some people inflict upon others. Noise pollution may or may not cause a change in income distribution. It may simply rob people of peace of mind, a good night's sleep etc., or it might cause hearing damage to some or nervous ailments etc. to others. The latter two would represent a change in the distribution of income if the individuals involved, as a result, are in need of medical care. Just as some foreigners have medical ailments due to

⁵⁷ Ibid., pp. 424 - 425.

difficulties in adjusting to the Swiss society, it is conceivable that some Swiss could have medical ailments as a result of having to work land, live among foreigners and, consequently a change in the distribution of income could occur. The same could be true if somebody feels that the only way out is to leave to another city (town) where he would be subjected to less or no contact with foreign inhabitants.

There may be yet another source through which the income distribution could have been changed. There are skills or jobs that have not been replaced or supplemented by foreign labor and there are skills or jobs that have been supplemented or replaced. If foreign labor is brought in to replace or supplement certain skills or jobs only, the wages of that group of people is most likely to fall or to increase at a slower rate than the wages of the group of people who possess a skill that cannot be replaced or supplemented by foreign labor. Clearly, one group is materially disadvantaged with respect to the other and a cost occurs to it, particularly if they are tied down because of a lack in social mobility. This would be true even if the foreign workers were allowed to compete freely on the labor market. Even if the group subjected to this type of cost retrain itself (or acquires a skill); they can at best minimize the loss and will still have to bear some of the cost in the form of opportunity cost and retraining expenses.

Adrian Hugo Gnehm argues in his dissertation that the foreign labor that was brought in generally has kept labor costs increasing only slightly. He indicates that this was the reason why Switzerland took a relatively labor intensive approach to economic growth instead of a capital intensive one.⁵⁸

⁵⁸ Gnehm, Adrian, Hugo, *Auslaendische Arbeitskraefte - Ihre Bedeutung fuer Konjunktur und Wachstum dargestellt am Beispiel der Schweiz*, (Bern: Verlag Paul Haupt, 1966), pp. 93, 76.

Therefore, it could be possible that relative changes in the income distribution between the upper, middle and lower class occurred as a result of importing foreign labor.

Changes in the distribution of income could also have occurred in connection with the housing market. Housing is very tight in Switzerland and has been so in recent years. Foreigners compete very strongly for housing and often with the help of the employers.⁵⁹ It is conceivable that the foreign population competes with Swiss, although not for very low cost housing, for lower cost type housing. Thereby, this type of housing is likely to increase in price disproportionately to the more expensive types of housing. The consumer price index, however, would indicate only an average of all housing prices and therefore not account for the whole real price increase for housing of the lower class. Since housing is a big component of a lower class' budget and wage increases are generally given upon considering also the changes in the consumer price index, the lower class' wage increases may not be adequately high to keep real income on the same level.

Importing foreign labor also caused productivity of labor to rise at a slower rate. Who is responsible for this cost (loss in income)?

Having investigated the incidence of the social cost and changes in the distribution of income, we have to ask the question as to what economic tool could bring about a minimization of the social costs and how a compensation for a past (or future?) loss in income could come about.

⁵⁹

Braun, Rudolf, *Sozio-kulturelle Probleme der Eingliederung italienischer Arbeitskräfte in der Schweiz*, (Erlenbach-Zurich: Eugen Rentsch Verlag, 1970), p. 203.

A progressive tax could be imposed on all the firms⁶⁰ employing foreign labor. The higher the percentage of foreign labor a firm employs (with respect to its total employment) the higher the tax rate would be. (Whether the tax rate can be set such that it will reflect the marginal social cost a firm causes by employing foreign labor remains a practical question). The tax mentioned would have to be such that it will create an economic incentive to distribute foreign labor (and most likely the foreign population) approximately equally all over the country and among firms. The level of the tax could be set such that a compensation of past losses in income could be provided to certain groups to whom such losses might have occurred.

What does this policy assume? It assumes that:

- 1) if the foreign population can be distributed geographically and among firms approximately equally (and with it the interactions of the Swiss and the foreign population), social conflict will be minimized or eliminated.
- 2) the social threshold is approximately the same all over the country.
- 3) the loss in income and therefore the amount of compensation can be determined.
- 4) the price mechanism works well enough to distribute the foreign population approximately equally.

⁶⁰ The same taxing system would apply to government. There, however, one has to prevent an indirect income redistribution; i.e. the tax rate which the government would use to collect the revenues for paying its tax would have to be such that it is smallest with those people who bear the highest social cost. (Most likely, the rate line would go along the social stratification line.)

- 5) foreign labor is permitted to compete freely on the labor market.
- 6) the social threshold is surpassed.

Some possible effects of applying the above policy could be:

- 1) The tax rate could turn out to be so high that a substitution of capital for labor or cutting back in employment occurs. In such a case, the supply of labor might exceed the demand for labor; the cost of having foreign labor might even become greater for the Swiss because of increased pressure on the wages of the working class with which the foreign labor competes. The compensation then would have to increase as a result of the increased cost and the cycle would begin all over again. (However, this could largely be prevented by having to pay the same wages to foreigners as to Swiss).
- 2) A shift in the economic structure is very likely to occur. Some firms will not be able to exist with higher labor costs. It will be mainly those that have been "preserved" with the help of foreign workers who were not allowed to compete freely in the labor market. (However, this change in the economic structure is likely to occur anyway because of the present government policy which aims at stabilizing the foreign population.)
- 3) The general wage level for Swiss might increase (at least in the short run) because of higher demand for Swiss labor by firms who had a high percentage of foreigners in the labor force before the tax was imposed. (If foreign labor has to be paid the same wages as Swiss labor, the general wage level would tend to rise.)

- 4) Should the structural changes have to be made too fast, economic growth could be somewhat impaired.
- 5) Any cost that would occur to the foreign workers because of being laid off would have to be compensated to them.
- 6) In those areas where foreign labor would be laid off, the wage level will likely be rising while it may not rise as much, or not at all in the areas where foreign workers would move to as a result of the distributive effect of the imposed tax. Since these are mostly also the less developed areas of Switzerland, there may be enough incentive for new industry to locate there. Hence, the nation's economic wealth would be distributed more equally among the cantons also.

Theoretically, the suggested progressive tax was analyzed and its assumptions and some implications when imposed on firms employing foreign labor were pointed out. We have also seen where there might be a need for compensation and why other tax policies could not be accepted. In the following chapter, we will consider some further policies that might be necessary in addition to the proposed progressive tax.

CHAPTER V

POLICIES IN ADDITION TO THE PROGRESSIVE TAX POLICY

In the last chapter it was shown that a progressive tax could distribute the foreign labor (population). The working class, which probably bears the highest degree of impairment, would be able to see some relief. This being the fact, however, is by no means a certainty that the social conflict would be eliminated. Should it not be possible to eliminate all the social conflict (social cost) we have two choices left:

- 1) to increase the social threshold, and
- 2) to compensate foreigners for leaving the country.

Both choices, in order to prevent any changes in the distribution of income, would have to be financed with the same kind of tax suggested in chapter IV.

The social threshold could be increased by education, which could help people to be able to integrate the foreign population, or through certain types of investments in the infra-structure which tend to increase the social threshold directly (e.g. community center, sport facilities, etc., where everybody can have access to). Compensation, as discussed earlier, might prove very effective but might also be expensive and too complicated.

There is also a possibility that, as a result of the tax suggested, foreign labor may become unemployed on a large scale because of substitution of capital for labor. There may be certain measures that can be taken, through fiscal and monetary policy, to alleviate the problem and restore full employment. Unfortunately, the effects of the tax cannot be predicted empirically here, nor can the compensation or the tax rate be assessed. Should there be any compensating to be done, it would also have to be considered for how many past years compensation for economic losses should occur.

Furthermore, it has to be considered how fast one would want to proceed with distributing foreign labor because of structural changes the economy most likely would be forced to undergo. This, however, cannot be determined without sufficient empirical data.

It was pointed out what policies would have to be accepted, in addition to the proposed progressive tax, if social cost (social conflict) could not be eliminated. We have also seen where empirical work would have to be conducted to bridge the gap between theory and practice properly. The next chapter will summarize what has been done in this thesis with respect to finding a theoretical solution to the foreign workers problem.

CHAPTER VI

SUMMARY AND CONCLUSIONS

A very high similarity seems to exist between the problem of pollution and congestion and the Swiss foreign worker problem. Just as, with respect to pollution and congestion, economic solutions are dependent on biological systems, the economic solutions to the foreign worker problem have to be in tune with sociological and political aspects of the problem. Analyzing the sociological aspects it was pointed out that social conflict not only exists but tends to be perpetuated and augmented because of "socialization forces", competition, etc. and above all because many people see themselves powerlessly subjected to forces of change that they did not desire. In the above analysis, the political model of the power elite was accepted to explain why so much foreign labor was imported and why the foreign population grew so fast - and this against the will of so many Swiss citizens who on numerous occasions spoke up against it.

Based on sociological and political analysis it was concluded that the lower class is bearing the greatest share of the social cost that occurred (and occurs) as a result of the large foreign population. A model was developed that tries to point out the economic forces that were at work in causing the social cost (social conflict). Various possible policies that could alleviate the foreign worker problem (social conflict and social cost) were then suggested and evaluated. The emphasis was given to a policy which includes a progressive tax imposed on the firms that employ foreign labor and, if needed, a system of compensation. With this policy it should be possible to minimize the social cost (if not eliminate it) all over Switzerland without causing a change in the distribution of income. Through the tax, economic

incentives would be created that would distribute the foreign population (and social interaction) almost equally all over Switzerland. Also, the theoretical assumptions of the policy and some possible effects the policy could have on the Swiss economy were mentioned. Unfortunately, no empirical work could be done to figure what tax rate and level of compensation would be needed. Neither could any simulation models be run to predict the effects of the policy suggested, or how vigorously it should be applied.

It is this author's opinion that previous studies on the Swiss foreign worker problem have approached it too superficially, without making deep enough analyses as to who inflicts the social cost and who has to put up with it. Only after that has been done can the proper policy choices be made, and made acceptable to the whole Swiss population. It is in this respect that this author has tried to make a contribution.

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A THEORETICAL ANALYSIS OF THE SWISS FOREIGN WORKER PROBLEM

by

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For over ten years there has been political resentment and resistance to the increasing foreign population in Switzerland which now accounts for approximately 16 % of the whole population. In June 1970 there was an "initiative" to reduce the foreign population to 10 % within 4 years. This "initiative" failed (54:46) in a national vote. Neither the economic nor the sociological problem has yet been solved by the political process.

Sociologically the problem takes on "apartheid" dimensions. Many Swiss discriminate against the foreign population (mostly Southern Europeans) and do not want to integrate them. On the other hand, some of the foreigners isolate themselves, partially because they do not have any other choice, and partially because they do not see a need for assimilation or integration. Importing so much foreign labor (and with it foreign population) created a social cost that the firms did not have to pay, for they only paid the direct cost of labor. The social cost has a sociological (social conflict) and an economic dimension (changes in the distribution of income).

A neo-classical model was adopted to show that the firms which try to maximize their marketable output, utilized the relatively low wage foreign labor. In this process, the economy became relatively more labor intensive. Furthermore, competitive forces within industries forced other firms to employ more foreign labor. In so doing, the economy grew but social conflict manifested itself. In addition, there were other forces at work that contributed heavily to the problem. One was the "power elite" which rationalized importing so much foreign labor and increasing the foreign population, despite plenty of protest from the labor unions and other segments of the society. The second was of sociological nature. No society has an unlimited

capacity for change. This fact causes society to have a social threshold. Once the threshold is surpassed and social conflict arises, certain social forces may augment the conflict.

In trying to find a solution to the foreign workers problem, an analogy was drawn with the pollution and congestion problem. After analyzing the incidence of most of the social cost, various policies were suggested and evaluated. The criterion was minimization (or elimination) of social cost by putting the burden on the party that caused the social cost and perhaps compensate the parties who may have had a loss in income as a result of the social cost. With this criterion any change in the distribution of income can be prevented while solving the problem. The major emphasis was then given to a policy which has the equal distribution of the foreign population (social interaction) as its goal. This, it was suggested, could be achieved by imposing a progressive tax on the firms that employ foreign labor, and the necessary compensations could be carried out with the resulting tax revenue. Some of the macro- and micro-economic effects of this policy were then discussed. One of the findings was that the less developed areas of Switzerland might become more attractive to industry and therefore be able to narrow the income gap.

It was realized that distribution of the foreign population may not be sufficient and that other policies like increasing the social threshold or compensating the foreigners for leaving the country might have to be added. However, the source of financing the policies would remain the same.

It was also recognized that empirical work is still needed to make the policy suggested practical and to predict the possible effects of the policy.