

Gastarbeiter and the Wirtschaftswunder

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Why Europe's growth sectors need better immigration policy

The life-time achievement of German guest workers, or 'Gastarbeiter', is insufficiently appreciated. Today guest workers are primarily seen as the fathers of our integration problem. First, this is unjust, because the German integration problem has many authors. Second, it is unfair because most guest workers wish to provide opportunities for their children which they perhaps never had. When this does not succeed, most guest workers suffer from the parental failure much more directly than German society from the integration problem.

Third, it is underestimated how much Germany still benefits from the historical contribution of guest workers to Germany's economic miracle. The German automobile industry would not have been able to establish itself at the top of the global league in the way it has without guest workers. With the help of guest workers the German car industry was able to grow production quickly during the decisive expansionary phase of the 1960s and thus to reduce production costs more rapidly than many competitors.

The share of guest workers in the workforce of the vehicle manufacturing sector grew quickly to over 25%. This, coupled with German excellence in engineering, was a great recipe for success. In spite of outsourcing Germany still benefits from the automobile cluster that was created back then: about every seventh job in Germany depends on it.

Of course much has changed since the 1960s. As a result of technical progress and globalisation it is the highly qualified manpower which is in short supply today, no longer unskilled factory workers. This has consequences both for education policy and for immigration policy. Despite its success at the time, the guest worker programme would not and should not be rolled out again in the same form. But what still holds good is that an open immigration policy can play a key role in facilitating the creation of successful, high-value adding clusters.

In economic terms, clusters are the consequence of network effects and returns to scale: ie unit costs of production decrease with size. Where increasing returns to scale occur, larger firms and the larger cluster prevail. In order to succeed in new economic sectors with increasing returns to scale, early entry and rapid growth are decisive. Unfortunately, in recent years Europe has been much less successful at this than the US, as a new Bruegel study shows (link: <http://www.bruegel.org/6346>). Thomas Philippon and Nicolas Véron analyse here the 500 biggest listed companies in the world. These firms are all so large that returns to scale are bound to be a central factor for them. The analysis focuses in particular on the age distribution of these 500 corporations, based on the year in which they were founded.

A total of thirty of these top 500 were set up after 1975. But only three of these young giants are from Europe, against 26 in the US. Philippon and Véron make a plausible argument that this

difference is in part attributable to the greater ease with which US firms can acquire capital from financial markets in the launch phase and for rapid expansion.

But the availability of migrants is also a critical factor. Migrants played an important role in the launch phase of the Californian IT industry. Famous examples are Andy Grove (Hungary) who made Intel big, Andreas von Bechtoldsheim (Germany), co-founder of Sun Microsystems and early Google investor, Vinod Khosla (India), also co-founder of Sun Microsystems and one of the most successful venture capitalists, Pierre Omidyar (France/Iran), founder of eBay, Jerry Yang (Taiwan), founder of Yahoo and Sergey Brin (Russia), co-founder of Google.

And in exactly the same way as guest workers helped the German automobile industry to higher growth rates, migrants play an important role in the expansionary phase of high-tech firms. Companies seeking first-class staff in order to be better and faster than their competitors scour the whole world for talent. Imagine if US policy had confronted Silicon Valley with the prescription 'Children, not Indians' (a election slogan against high-skilled immigration used in a German regional not so long ago). Would the IT revolution have had to be put on hold for half a generation in order to await the training of children? The IT revolution would have continued anyway, but not in Silicon Valley.

The competition for potential clusters in the area of environment-friendly technology is perhaps the next big challenge for Europe. We had a head start but we could quickly give it away unless we develop a more effective capital market and unless we can agree on a European migration policy to attract high-skilled immigrants (a 'Blue Card'). Perversely, it seems politically more straightforward to acquire billions in subsidies than to carry out the needed reforms. But subsidies are less effective.

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