Immigration, Low-Wage Employment, and the Spanish Economy

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Introduction

Immigrants willing to work for low wages come to Spain seeking economic opportunity. In turn, they play a large part in Spain’s economy, affecting the labor market in several ways. First, immigrants support the aging Spanish population by contributing to social security, the Seguridad Social. This is crucial support for the increasingly strained pension system. Second, immigrants support Spain’s transition to a service-based, high-tech economy by working in low-paying, low-growth industries. Through their flexibility and mobility, immigrants fill gaps in the labor market. Third, immigrants have the potential to raise the average Spanish income and strengthen the Spanish economy overall by increasing economic efficiency and productivity.

Immigration is a relatively recent phenomenon for Spain, as it is for Portugal, Italy, and Greece. Until the 1970s, Spaniards were leaving Spain to seek economic opportunities elsewhere. After that time the trend reversed, as Spaniards became less likely to emigrate and foreigners began to arrive in increasing numbers. In 1975 there were 165,000 legal foreign residents in Spain. In 1992 that number nearly tripled to 415,000, plus an estimated 70,000 to 294,000 more undocumented foreigners. (Ugalde, p. 87) In 2004 there were 1.5 million foreign residents, comprising 3.6 percent of the Spanish population. (Collado, p. 335)

This article focuses on the impact of economic migrants to Spain from developing countries in Latin America and Africa. These people generally come from poor countries and work for low wages. Latin Americans comprise 39 percent of immigrants to Spain, and Africans comprise 20 percent. Many other immigrants to Spain, about 35 percent, come from other EU countries and Eastern Europe. ("The Second Transition...") Political immigrants, or refugees, comprise a smaller group entering
Spain. The article first presents an overview of changes in Spain’s population and compares Spain’s declining population with the booming populations of the countries that are the major sources of Spanish immigration. It then discusses one major influence on immigrants’ choices to come to Spain — the opportunity to improve their standard of living. The next sections explore the economic effects that immigrants have in Spain, and how immigration law in Spain has evolved the way it has.

Spain’s Population in Decline

Spain’s native population is declining. After Italy, Spain has the lowest population growth rate in the EU. Studies indicate that even with high rates of immigration, Europe’s population will fall by 6 percent over the next 50 years. By way of contrast, the global population is expected to grow by 50 percent. “Demographers expect the group of working-age Spaniards to start shrinking around 2010,” notes The Economist, “after which the demand for labour can be met only by immigration.” (“The Second Transition...”) Population growth and decline affect the rate of economic growth. Using current demographic trends as a guide, the European Union’s GDP will be growing at just over 1 percent per year in 2010, compared with 2 percent growth in North America and 2.5 percent growth in China. (“Europe’s Population Implosion”)

If current demographic trends continue in Spain and in Italy, there will be one pensioner for every worker. (“Europe’s Population Implosion”) Joseph Blair describes in this volume how the costs associated with supporting the elderly are leaving Spain — and its elderly — vulnerable. Blair shows that at 1995–2000 rates of immigration and fertility, the percentage of the population over age 60 will jump from 22 percent in 2000 to 45.5 percent in 2040. (Blair)

Large flows of immigrants will not reverse the problems associated with Spain’s aging population but will mitigate them. Productive, hard-working immigrants in this generation will also age and eventually need the support of social security later in their lives. Through their labor, immigrants support the Seguridad Social, the national health insurance. Today, over 2 percent of GDP goes into the Seguridad Social. If one includes other forms of social protection, Spanish spending on health and welfare over the past 25 years ranges from 16 percent of GDP in 1980 to 21 percent in 1995, adding up to a substantial amount of government spending. (Jimeno, p. 125)

Immigrants from poor countries in Africa and South America, the main places of origin of immigrants to Spain, have higher birth rates than Spaniards and immigrants from rich countries. South American women, excluding women from Argentina, Chile and Uruguay, have an average of 2.6 children each. Women in North Africa and the Middle East have an average of 2.8 children. Similarly, sub-Saharan African women have an average of 2.9 children each. (Martínez et al., pp. 114–15) These young, growing populations contrast with the increasing number of Spanish women who give their professional lives priority over having children. Some European governments have used incentives to increase birth rates, although policies that encourage childbirth tend to make Europeans uneasy. (“Europe’s Population Implosion”) In Sweden, tax benefits for working mothers initially raised the birth rate. In France, funding for childcare programs, higher than in any other EU country, has given France the highest birth rate in the EU. These are examples of initiatives European governments have used to raise their birth rates, showing what a concern population decline is across Europe. Birth rates among immigrants can change, and often do, as immigrant women are influenced by and adapt to Spanish culture. For instance, immigrant women from sub-Saharan Africa who use birth control began using it when they came to Spain. (Martínez et al., p. 114) The difference in birth rates underlies the primary reason immigrants want to come to Spain: to improve their standard of living.

Gaps in Standard of Living

Immigration flows are largely a result of the gaps in income between Spain and the poor countries that immigrants to Spain leave behind. As income gaps widen, the pressure from migrant flows will increase. Immigrants
tend to be very mobile, adapting to changing economic opportunities. (Ugalde, p. 101) They respond to opportunities to increase their earnings and raise their standard of living. On the United Nations Development Programme’s Human Development Index, Spain ranked 20th globally in 2004. This measure of literacy, life expectancy, and standard of living, which ranked Spain just behind France and Germany, ranked Morocco 125th. (“Human Development Report 2004...”) Of the Latin American countries from which immigrants come, Colombia ranked 73rd, Ecuador ranked 100th, and Bolivia ranked 114th. These rankings show that Spain offers immigrants a chance to enjoy a longer life, a greater opportunity for literacy and learning, and a higher standard of living.

Moroccans comprise the largest group of non-Europeans living in Spain. The difference between the standard of living in Spain and the standard of living in Morocco is considerable. Spain’s GDP per capita in 2002 was $21,460, whereas Morocco’s was just $3,810. The difference in income is a compelling reason for many Moroccans to seek employment in Spain, and often they take dangerous risks to get there. Two-thirds of those crossing the choppy Straits of Gibraltar are Moroccans. The remaining third are mainly sub-Saharan Africans. (“Over the Sea to Spain”) The passage across the Sahara through Morocco and Spain is the most common route sub-Saharan Africans take to get to Europe.

Argentines are the next largest group of non-Europeans coming to Spain after Moroccans. Twenty years ago, much more migration occurred within Latin America. (“Emigration from Latin America...”) Now Latin Americans primarily go to the United States or Europe. Of immigrants from Latin America, many come from Ecuador, Colombia, Peru, and the Dominican Republic. (Toribio, p. 51) In many instances, Latin Americans leave their countries because of limited economic opportunities at home. They sometimes have other reasons for leaving, including violence, war, and crime. While many Latin American emigrants are poor, others are educated and middle class. (“Emigration from Latin America...”) Spain’s Changing Economy

Over the past 30 years, Spain has experienced both a declining birth rate and a shift from being a country of emigrants to a country of immigrants. Both of these changes have shaped the character of Spain’s economy, in addition to yet another change: a shift from agriculture to a service-based economy. In the 1960s, Spain’s labor force started shifting away from agriculture and into services, a trend that continues today. In 1970, 38.7 percent of the workforce were in the agricultural sector and 31 percent were employed in services. In 1990, 11.8 percent were employed in agriculture and 54.8 percent were in the service sector. (Fuentes, p. 115) Spain’s shift was more dramatic than in other EU countries. Commenting on this shift, The Economist says that Spanish workers today “must now find higher-earning and more productive jobs than the unskilled ones of the past.” (“The Second Transition...”) The shift Spanish workers made toward higher-income jobs has made more jobs available in low-wage sectors, where immigrants often find work. These low-wage jobs are typically in domestic service, catering, agriculture, construction, and retail. (“The Social Partners...”) Agricultural work remains an important source of employment for low-wage workers, often immigrants. Spanish farmers face an ethical dilemma when it comes to hiring, because many of the workers available to work in the hot climate of southern Spain come from sub-Saharan Africa and the Magreb and are willing to work for extremely low wages. Few Spaniards are willing to work in the arid farmlands along the southern coast. Without immigrants, the demand for labor in this hot, arid region would not be met.

As the economy has moved toward a service-based one in the last forty years, another recent global change has also affected Spain: international terrorism. Spaniards have not yet formed any major anti-immigration movements, but they are worried about terrorism. In a 2000–2001 survey, 80 percent of Spaniards said that defeating terrorism was their primary concern. Their next-highest concerns were
to reduce unemployment and to reduce the crime rate. (Martinez, 2004) Spain has extensive experience in countering terrorism domestically because of the long-standing challenge posed by Basque extremists. Authorities apply this experience in responding to international terrorism.

Because the movement of people across borders is associated with national security, the Spanish government has combined the offices that oversee immigration and national security to be more effective in providing security. In addition, Spain applies its experience in dealing with Basque terrorists. A major problem in Spain is a hashish trafficking network, closely linked with the financing of international terrorism, that cuts through its borders. Spanish police seized 70.4 percent of hashish being smuggled into the EU in 2002. (“Police Warns...”) As General Commissioner of Judicial Police José García Losada has said, “We are especially worried about the north of Africa.” (“Police Warns...”) Because of this concern, European policies toward North Africa since the 1990s have had a stronger security orientation. (Closa and Heywood, p. 223) The unmonitored movement of people crossing illegally into Spain compounds the immigration issue, as the merging of the immigration and national security departments illustrates. Most Spaniards (85 percent) say that the government should only admit workers that the labor market “needs.” (Collado et al., p. 336) Because so many Spaniards think foreigners should be allowed to work in Spain when the labor market needs them, it is important to assess the demand for additional low-wage and low-skilled labor that exists in Spain. This is done in the following section.

The Economic Impact of Immigration

Two things that make Spain’s economy unique are its long history of high unemployment and its large grey economy. The grey economy encompasses all economic transactions that are not accounted for in official statistics, which in Spain could be over one-fifth of GDP. Not all activity in the grey economy is what we would typically think of as “illicit.” Alternative ways of generating income include artisan production, unregistered work on farms, in homes, and in hotels, and work in hidden factories. (Bermeo, p. 270) These “alternative” sources of income are closely connected with formal income generation, as families support each other through different sources of earned income. (Bermeo, p. 270) The substantial amount of unaccounted activity suggests that the true unemployment rate may not be as high as official data suggest. One-fifth of Spain’s GDP amounts to roughly €160 billion.

This high level of unregistered activity explains how Spain has been able to absorb more immigrants than official employment statistics (which continue to show high unemployment) suggest has been possible. Finding employment in this way, illegal immigrants may have a more positive effect on native Spanish wages than legal immigrants. (Ehrenberg and Smith, p. 330) Whereas legal immigrants often come to Spain to reunite with family members, illegal immigrants are more likely to come to find work. Spanish farm owners are regularly approached by undocumented workers willing to work for half the minimum wage. (Martinez, 2004) When farmers hire workers in the grey economy for below-minimum wages, a gap in labor protection emerges, leaving a class of protected workers and a class of unprotected workers. This division translates into unequal access to social security and unequal job security. (Glatzer, p. 93)

Official estimates suggest that 10.4 percent of the Spanish workforce is unemployed (in 2004). Juan José Toribio argues that this high level of unemployment, which has been persistent in Spain for decades, can be explained by labor market rigidity. (Toribio, p. 55) Government regulations of the labor market include laws that make it difficult for employers to dismiss workers. Similar worker protections are common throughout Europe. In Spain, laws that make it difficult to terminate employment contracts with workers were passed under Franco. When Spain democratized, unions kept their no-dismissal privileges, while at the same time negotiating high wages. Unions engage in wage bargaining for close to 80 percent of the Spanish workforce. (Jimeno,
This high rate of collective bargaining makes Spain's labor market less competitive than other European countries, particularly the new EU member countries. The labor market also is less competitive because Spanish workers are not usually willing to relocate to another part of the country for a new job. Together these two factors weaken Spain's competitiveness vis-a-vis acceding EU countries where workers are more likely to relocate for jobs and wages are lower.

Full-time, unionized workers are usually paid more than they would be if their wages were set by the market rather than by collective bargaining. All legal workers also enjoy a 40-hour work week and 4 weeks vacation. (Glatzer, p. 106) Because of the job protection full-time workers enjoy, employers are increasingly likely to hire workers for temporary work, without giving them the benefits associated with full-time employment. ("The Second Transition...", p. 9) Approximately one-third of workers in Spain have temporary contracts with their employers. Many contracts are for less than six months, making Spain the European country with the most insecure working conditions. (O'Flynn)

Immigration's benefits are more immediate when wages and prices are more flexible, which may explain immigration's beneficial effects in Spain where the grey economy comprises such a high level of economic activity. (Wyplosz, p. 89) According to one study, the labor market outcomes of unskilled native Spanish workers were not significantly reduced after a 1991 increase in the number of legal immigrants in Spain. The study's authors, Dolado, Duce, and Jimeno-Serrano, found that "the elasticity of wages with respect to the immigration rate is small but positive, and the elasticity of employment of unskilled workers is negative but not significant." (Dolado et al., p. 18) Spain also benefits from legal immigrant labor through contributions immigrants make to the Seguridad Social, which supports aging Spaniards. European countries worry that they will wind up paying more welfare benefits to immigrants than immigrant workers contribute. In Spain, all immigrants, including those in Spain illegally, have a legal right to basic health care and a right to education until age 18. (Toribio) However, other studies predict that immigrants will contribute more to the economy than they will take out. ("Migration in the European Union...") Taxes in Spain are both direct (paid as a percentage of personal income) and indirect (as a value-added tax on purchases). Because of indirect taxes, even illegal migrants contribute to the government when they spend. Studies show that, in general, immigrants are overall net contributors to the economy, as taxpayers and as workers paying into social security. Immigrants' contributions overall are especially important in Spain, where an aging population makes their contribution to taxes and social security crucial.

In addition to contributing to social security, immigrants tend to be mobile and seek work in places in Spain where natives are generally unwilling to relocate. Along the southern coast of Spain, the agricultural work is exceedingly hard. Africans who come from hot climates are often better able to do this difficult work and tolerate the heat. (Martinez, 2004) As such, immigrants complement, rather than substitute for, Spanish workers in the labor market. In addition to agricultural work, low-skilled labor is needed in other industries as well. Construction, for instance, is a sector that employs many foreign workers.

It should be pointed out that the various regions in Spain are affected differently by immigration. Generally, those regions with the highest unemployment levels are the regions with the largest grey economies. (Bermeo, p. 270) Northern regions of Spain receive far fewer immigrants than southern and peripheral regions. Madrid has the highest proportion of immigrants with 200,000 immigrants in a population of three million. Catalonia receives the most immigrants of any region with its 250,000 immigrants in a population of six million. Andalucia, the Canary Islands, the Balearic Islands, Ceuta and Melilla also have high proportions of immigrants. (Toribio, p. 52)

How did immigrants come to fill this integral role in the Spanish economy? And how have such high numbers of immigrants entered Spain illegally? The following section describes immigration to Spain over the last 20 years.
Spanish Immigration Law

Spain's initial immigration policies were created when the government realized that, for the first time since Franco's regime, more people were coming into Spain than leaving it. Spaniards had long been emigrating for higher-earning jobs elsewhere. But in the late 1970s, many Spaniards who had emigrated began returning to Spain as the economy improved. Spain also became a place to which non-Spanish immigrants desired to come. At about the same time, Spain was preparing to enter the European Community and needed laws that met European standards, including laws to regulate immigration. After the first Spanish immigration law was passed in 1986, Spain joined the European Community. Spain's immigration policy at the time was reactive, like the immigration policies of the other Southern European countries — Portugal, Italy, and Greece — in trying to control the entry of immigrants and stop illegal entry.

When Spain began legislating on immigration in 1985, it considered immigration a temporary phenomenon and gave legal status to those immigrants already living in Spain. Yet immigration continued at a steady pace, and in addition many immigrants entering Spain did not enter legally. In 1991, the Spanish government gave these illegal immigrants legal status. In 1996, the government amended its immigration law, known in Spain as the Ley de Extranjería. The amendment recognized immigration as more than a short-term phenomenon and further increased the rights given to immigrants. Four years after the immigration law was amended, the government passed yet another law, Law 4/2000, which was amended as Law 8/2000 less than one year later, to improve the social integration of immigrants into Spanish society. In trying to increase its control over immigration flows, this legislation gave sharply different rights to legal and illegal migrants. (Closa and Heywood, p. 236) For example, illegal immigrants do not have the right to join unions or strike. Then in 2001, a still more global, coordinated immigration policy was created. Implemented over the period 2001–2004, the Plan GRECO gave regional governments a central role in integrating immigrants into Spanish society.

Even more recent changes to immigration law in 2005 increased the responsibility of employers to hire only legal workers. This legislation made employers responsible for filing the national health insurance paperwork for immigrant workers. Employers can also now be fined up to €60,000 for hiring illegal immigrants. The 2005 legislation has two additional aims. The first is to reduce exploitative labor practices; the second is to increase tax and national insurance revenue. (Crawford) To qualify for residence and work permits under the new law, immigrants need to have a job contract and be able to prove that they have lived in Spain for more than six months. The Financial Times expects that the legislation will benefit 800,000 to 1 million immigrants living in Spain illegally, calling this the “largest ever amnesty for illegal immigrants in Europe.” (Crawford)

Since 2002 the Spanish government has set annual quotas for foreign labor. These quotas are set after consulting with businesses and local leaders throughout Spain to determine the need for additional workers in each sector. In setting each year's quota, regional governments make recommendations with the advice of trade unions and employee associations. (Toribio, p. 50) To fill the annual labor quota, the government gives work permits directly to workers still in their country of origin to discourage people from coming to Spain illegally before they have a work permit.

Spain also periodically grants legal status and residence permits to all illegal immigrants already in the country. This periodic granting of legal status, known as “regularization,” dramatically demonstrates the scale of unmonitored immigration into Spain. With the regularization that occurred in 1991, the number of legal foreign workers went from 50,168 to 124,554, an increase of about 125 percent. It is likely that there were many more foreigners in Spain who did not take advantage of the opportunity. (Huntoon, pp. 434–35) The high numbers of illegal immigrants who appear in official statistics when given the opportunity to legalize their status demonstrate what one analyst calls Southern Europe's “partial and ineffective” attempt to control migration. (Freeman, p. 895)
Immigration to Spain accounted for one-third of all immigration to Europe in 2004. (Crawford). For this reason, European immigration ministers have urged Spain to coordinate its immigration policies with the EU. German Interior Minister Otto Schily recently expressed concern that immigrants will be able to move freely to France and Germany. As a signatory to the Schengen Agreement, which allows people to move freely throughout most of Europe, Spain's policies have implications for all other signatories (most of the EU). In setting immigration policy, Spain must consider the concerns of EU member countries, along with the effects that its policies have on the countries from which immigrants come. The following section considers the effects that Spanish immigration policy has on poor countries.

What Happens to the Countries Immigrants Leave Behind?

Poor countries lose financial capital and human capital when people emigrate. The best educated and most enterprising are the most likely to leave poor countries. ("The View from Afar...") Yet clearly poor countries also stand to gain through emigration. Emigration lessens tensions in a crowded labor market. It also gives the relatives of emigrants added income when emigrants send their earnings back to family members. These remittance payments support the home economy. Globally, developing countries receive an estimated $60 billion a year in remittance payments ("The View from Afar...") with Latin America and the Caribbean receiving an estimated $15 billion a year. ("Emigration from Latin America...") "Remittances," writes The Economist, "have become a far more important source of revenue than foreign aid." ("Emigration from Latin America...") A study by Susan Martin of Georgetown University also shows that each dollar sent back to the home country generates several additional dollars in economic growth. (Martin)

Immigration policy can thus do much to aid or harm developing countries; still it is only one way that the policies of rich countries can affect poor countries. In fact, trade policy can be more detrimental to developing countries than immigration policy. For instance, the European Union's Common Agricultural Policy (CAP) has substantial effects on income levels in North Africa, which in turn affect migration patterns. The CAP subsidizes farming in Spain and leaves African farmers unable to compete with the low prices of Spanish agricultural products and cotton. Reducing the subsidies for domestic farming would make Spain more likely to import crops from Morocco, instead of the current practice of growing expensively irrigated crops in Spain with Moroccan labor. ("The Second Transition...") Such a policy change would have a greater effect on migration movement than a change in immigration policy.

These agricultural protections are part of the reason why Spain ranked poorly in a measure of rich countries' aid to poor countries, the Commitment to Development Index of the Center for Global Development and the Financial Times. Spain may rank low because it has high barriers to trade, despite having a relatively open immigration policy. Reduced trade barriers would lessen the flow of immigration to Spain, if migration results from differences in income. Wyplosz puts it succinctly when he says, "Trade and migration are substitutable ways of achieving the same result." (Wyplosz, p. 81) In other words, the difference in standards of living is a driving force behind why so many immigrants come to Spain, and stopping immigrants from crossing the Straits of Gibraltar may not address the reason behind the migrant flow. The Economist also claims that the immigration issue is rooted in a difference in earning potential and standard of living: "The flow of migrants will not cease until Morocco's living standards approach Spain's." ("The Second Transition..."). To address the difference in the standards of living of Spain and poor countries in Africa and Latin America, Spanish policymakers should therefore consider the effects their policies have on immigration levels.

Spain should also work in partnership with sending countries, Morocco in particular, to develop a more comprehensive, cooperative immigration policy. Spain might encourage Moroccan authorities to cooperate more closely to reduce the number of migrants crossing
the Straits of Gibraltar by increasing aid to Morocco and by reducing Spanish subsidies for domestic farming. By directing aid toward the poorest regions abroad and by addressing the disadvantages that CAP subsidies place on the agricultural viability of poor countries, Spain can gradually reduce the rate at which immigrants seek to come to Spain.

Conclusion

Immigrants have become an integral part of Spain's economy. As the country's population ages, immigrants will play an increasingly important part in supporting a viable Seguridad Social. Recognizing the important role that immigrants have in sustaining Spain's aging population, Spanish policymakers have been focusing their attention on how to make immigration safe and legal. The substantial activity in Spain's grey economy has shown that immigrants are finding work in Spain despite the persistently high official unemployment rate. By making the immigration process more open and legal and by promoting economic growth in the regions from which immigrants come, Spain can be more successful at integrating immigrants into a strong, new Spain.
REFERENCES


