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MIGRANTS - DO THEY BRING ECONOMIC BENEFIT?

Summary

1. Limited skilled migration, in both directions, is a natural and beneficial feature of open economies. The issue is one of scale.

2. Government claims for the economic benefit of large scale migration do not survive critical examination. The calculation that immigrants contribute 2.5 billion annually to the Exchequer depends entirely on the period chosen and the assumptions made. The Home Office paper on which it was based describes the estimate as "tentative". Against that, the annual outflow of personal remittances amounts to 3-4 billion a year; the net outflow is about 1.1 billion per year. Claims that migrants add to economic growth ignore the fact that they also add to our population. Correcting for this gives a net benefit to the host community of less than 0.1% of Gross Domestic Product (GDP) per head per year - a result confirmed by major studies in United States, Canada and Holland. Even this benefit takes no account of the additional economic congestion costs.

3. The claim that migrants contribute to pensions is dismissed by the UN as requiring "virtually impossible" rates of immigration. The House of Lords economic committee concurs. The labour market impact depends on the sector. To the extent that immigration holds down wages, it makes it more difficult to attract into the labour force the one million on incapacity benefit who would like to work.

4. There are considerable social costs in terms of additional strains on housing, public services and social cohesion. A range of serious commentators have concluded that the issue cannot, and should not, be decided on economic grounds alone.

Introduction

5. In open societies migration both for employment and for personal reasons is quite natural. The issue is entirely one of scale. Few people doubt the advantage of limited highly skilled migration coming (or going) to fill vacancies in professional, financial and technical occupations. This need can largely be met by work permits valid for 3- 4 years. In the past however, most work permit holders

who applied have been granted settlement. Such long term settlement should be a different matter decided on criteria which include the impact of immigration on society at large. A points system on the Australian model would achieve this.

6. Recently, however, economic arguments have been advanced to justify very large-scale immigration into Britain. In fact most immigrants come for reasons that are not primarily work related. In 2003 only 21% of those granted settlement came here to work (including dependants)[1]. The others were those granted asylum or family reunion. Those who do come as workers are cheap and, therefore, attractive to employers but it is extremely expensive for the tax payer who has to provide the additional infrastructure. It is also a mixed blessing for the less skilled indigenous workforce whose wages are held down and who are rendered more likely to be unemployed. Thus the economic and social costs of immigration must be balanced against its benefits. This paper casts serious doubt on the three main arguments which the government has advanced - the contribution of migrants to the Exchequer, their contribution to economic growth and their impact on the age structure of the UK population. All these arguments are flawed, not to say false.

Contribution to the Exchequer

7. A Home Office paper[2] claimed that in 1999/2000 migrants in the UK contributed in taxes 2.5 billion more than they consumed in benefits and state services. (Overall Government expenditure is about 400 billion per year).

8. However, this calculation was made in a year in which the government accounts were in surplus so everyone paid in more than they took out. Correcting for this reduces their "contribution" by 1.3bn. The other elements depend greatly on the assumptions made. A detailed study[3] by Professor Rowthorne of Cambridge University concluded that the overall effect was probably neutral.

9. The study also ignored the crucial fact that since the mid 1980's immigration has been adding to our population and that, consequently, new facilities have to be built. It also ignored the higher cost of housing in the South East where two thirds of migrants settle and it ignored the cost of their special educational needs. Nor was there any reference to the cost of asylum seekers (approximately 2 bn per year)[4].

10. The Home Office paper itself showed (figure 2) that the proportion of migrants who claim Social Security benefits is higher than for the UK born. The exceptions are pensions, because their age profile is lower, as well as sick and disability benefits, perhaps for the same reason.

11. Even if the study had arrived at a small net contribution, this would have been inadequate. Most immigrants and their dependants are relatively young. The appropriate comparator, therefore, would be an indigenous sample of similar ages. In that age group there is, in all Western countries, a massive excess of taxes paid over services received - for the obvious reason that net taxes from this group pay for the social services of the elderly - chiefly health and pensions.

12. Finally, it is interesting to note that the original Home Office report contained at least six caveats. For example:

empirical estimates of this fiscal effect are difficult to obtain.

they are not only conditional on the period in which they are calculated but also on the country's position in the business cycle.

existing empirical results are generally ambiguous and in some cases contradictory

The tentative nature of this estimate must again be emphasised

13. Despite these caveats, Ministers have repeatedly advanced a claim that they must (or should) know is thoroughly unsound.

Personal Remittances

14. As might be expected, personal remittances have been climbing steadily. Indeed, they have nearly doubled in the last ten years to 3.8 billion in 2003[5]. This is largely money sent by individuals living and working in the UK to families in developing countries. The Government estimates that between 3 - 4 billion is sent abroad, with the Indian sub-continent, the Caribbean and sub Saharan Africa the leading recipients[6]. These remittances are of considerable benefit to developing countries but they are a cost to the UK in terms of foreign exchange which has to be earned. There are also, of course, inward remittances from British people working overseas which came to 2.7 billion in 2003. The net outflow, therefore, was about 1.1 billion in that year.

Contribution to Economic Growth

15. The Government has also repeatedly claimed that immigrants comprise 8% of the population but contribute 10% to Gross Domestic Product (GDP). This is based on a simple miscalculation. The Government have omitted from the immigrant population their dependent children who were born in the UK. Clearly, these children would not be here if it were not for immigration. Correcting for this mistake brings their share of the population to just over 10% while their contribution to GDP is 9.8%[7]. They are not, therefore, adding proportionately more to GDP, as the Government claims.

16. The Government's other major claim was contained in a speech by the Prime Minister to the Confederation of British Industry (CBI) on 27 April 2004. He said that "according to the Treasury, our economic growth rate would be almost 0.5% lower for the next two years if net migration ceased". A Parliamentary answer[8] revealed that the correct figure was 0.4%. But the key weakness of this argument is that it overlooks the fact that immigrants also add to our population. On the Treasury assumptions, they will add 0.26% to population so that the benefit in terms of GDP per head is more like 0.14%.

17. A more sophisticated calculation would compare the average compound growth rates of the working age population and the total population over the coming decades. Using the Government's

own crude assumption that growth in GDP is proportional to the growth in working age population, the increase in GDP per year would be 0.34% but the population would increase by 0.3%^[9]. Thus the benefit per head per year would be about 0.04%. This works out 7 per head per year or 14p a week. This calculation takes no account of additional infrastructure costs, nor of the costs of congestion to which immigration on this scale will add considerably^[10].

18. On other occasions Government spokesmen have claimed that "approximately 15% of the UK's trend growth depends on migration". In fact, trend growth is about 2.75%. Since 0.4% is 15% of 2.75%, this amounts to the same claim, expressed differently to make it look more impressive.

19. International experience confirms that the benefit of large scale immigration to the host population is extremely limited. Major studies in United States, Canada and Holland have all come to the same conclusion. They are summarised at Annex A.

20. Ministers sometimes point to the United States as an example of a country which has grown rapidly as a result of immigration. In fact, the major factor in the United States has been productivity growth, not immigration. The US economy today is about eight times larger than it was at the end of World War II, but the workforce is only twice as big. In other words, employees are roughly four times as productive today as they were in the late 1940s.

Age Structure and Pensions

21. The Government frequently suggest that migration will improve the balance between old and young, thus helping to pay pensions. This overlooks the obvious point that migrants also grow older. The Home Office themselves recognise that there is very little in this argument. Their research paper ^[11] stated:

...the impact of migration in mitigating population ageing is widely acknowledged to be small because migrants also age. For a substantial effect, net inflows of migrants would not only need to occur on an annual basis but would have to rise continuously".

22. Indeed, to maintain the present proportion of the population of working age to pensioners would require over 1 million immigrants a year up to 2050^[12]. The population would double to 120 million. This is clearly not feasible.

23. The UN put the point even more strongly. Their World Economic and Social Report for 2004 stated:

Immigration (to Europe) would have to expand at virtually impossible rates to offset declining support ratios".(Financial Times 30 November 2004).

24. The House of Lords Economic Affairs Committee, reporting in November 2003 reached the same conclusion:

We cannot hope to counter the trend towards an ageing population through immigration. Net migration into Britain would need to be 500,000 a year from 2010 to stabilise the average age of the population.

We conclude that...it is neither appropriate nor feasible to attempt to counter the trend towards a more aged society in the UK through a manipulation of immigration policy.

25. Finally, the pensions argument is sometimes padded out by entirely misleading references to the very low birth rate of Europe as a whole. The fact is that the situation varies enormously between European countries. For example, the total fertility rate in Italy is 1.2 where as in Britain it is 1.78. This is a huge differential in demographic terms. In fact there is no demographic crisis in Britain. Certainly, our fertility rate is below the replacement level of 2.1 and, if this level continues, the management of population ageing will be made more difficult. However, most women say that they would like at least 2 children. Changes to the labour market and family support to enable women to satisfy these wishes would certainly help. The imbalance of generations could be alleviated by removing obstacles and disincentives to a longer working life as the population becomes healthier. An improvement in productivity would also make a major difference by increasing the level of wealth and, therefore, the ability of the economy to sustain its older generation. Nevertheless, it has to be acknowledged that the inevitable population ageing process will certainly involve some pain and will require changes in behaviour and expectations. This, however, is very different from suggesting that large scale immigration would be helpful.

Immigrant labour

26. The Government claim that there are 600,000 vacancies to be filled and that immigration is required to fill them. This represents about 2% of the total workforce. In other words, nearly 98% of jobs are already filled. There must be some vacancies available if people are to be able to switch jobs. The fact that vacancies are at this level does not, therefore, mean that we need 600,000 immigrants but it does indicate that the labour market is tight. However, this is not a sufficient case for large scale immigration. The welfare of the existing community must also be considered. Martin Wolf [13] put it like this:

This point is ignored in some of the bad economic arguments made for immigration. Businesses, for example, protest that without immigration they would suffer chronic labour shortages. Yet, in an economy operating at close to full employment, some categories of worker will always be in excess demand. The market response is higher wages and more training. Understandably, business does not want to pay these costs. But some residents will, inevitably, be losers if they import labour instead. Moreover, this is a self-defeating policy: if the response to "shortages" is to import labour, additional demand for goods and services and further shortages of labour will emerge. The argument from shortages creates an open-ended demand for more immigration: if the UK had a population of 120m it would still have job shortages and so a demand for yet more immigration. The demand could never be satisfied.

27. Any immigration policy should take account of the "economically inactive" who amount to over 7 million of whom about 1.5 million express a desire to work. They include 2.7 million on incapacity benefit of whom a further one million would like to work if the necessary support was available[14].

28. Nor are all immigrants of equal weight in the labour market. Recent analysis for the Home Office [15] shows that persons born abroad have lower employment participation and higher unemployment than the UK born. Those born outside the EU/EFTA (European Free Trade Area) had an unemployment rate of 9.5% compared to 5.5% for the UK born and a participation rate of 67.6% compared to 79.6%. And some ethnic groups have an unemployment rate three times higher than that of the white population[16].

29. The scale of skill shortages should not be exaggerated. The most recent National Employer Skills Survey[17] found that only 4% of establishments had skill-shortage vacancies. They amounted to 135,000 vacancies or 0.6% of employment.

The Scottish Problem

30. England and Scotland face very different demographic futures. England's population is not declining. The Government's main projection shows that England's population will increase by 6 million by 2031 of which 5 million will be due to immigration[18]. By contrast, the population of Scotland is expected to decline by 10% over the next forty years[19]. In both countries the population will, inevitably, become older.

31. Another major difference is that England is six times as densely populated as Scotland. The social and economic costs of congestion therefore arise in England, particularly in London and the South East, in a way that does not apply in Scotland.

32. The Scottish Executive has introduced a number of schemes designed to attract immigrants to live and work in Scotland. In the 10 years from 1993-2002, 34,000[20] more people left Scotland for overseas than came from abroad. In the same period, movement of people between Scotland and the rest of the UK was almost exactly in balance.

33. The question, therefore, is whether foreign immigration will stimulate the Scottish economy or whether the first requirement is to stimulate the Scottish economy so as to persuade Scots to remain and attract immigrants to come. There is very little empirical evidence that stimulating immigration, of itself, also stimulates an economy. Nor is there any means by which foreign immigrants could be prevented from moving on to England where virtually all of them now settle.

Entrepreneurs

34. The level of self-employment appears to be similar as between the foreign born and UK born populations at between 8 - 10%^[21]. Some point to the success of the US economy as evidence to the value of migration. However, their immigration rate is scarcely higher than Europe's. American growth stems more from its open nature and from its rapid rise in productivity. Furthermore, Japan's rapid growth in the post war period was achieved without immigration. In short, the link between economic success and immigration is very hard to substantiate.

The costs of large scale migration

a) Overcrowding

35. The population of the UK is already at a record level of nearly 59 million. The Government's principal projection is that our population will increase by about 6 million by 2031 of which 5 million (84%) will be due to immigration. 80% of net migration is to London and the South East where the population density is one of the highest in Europe. Indeed, England as a whole is one of the most densely populated countries in Europe (383 people per sq km). This is nearly twice the level of Germany (230), four times the level of France (107) and twelve times the level of the United States (29)^[22]. England is now more densely populated than India and London and the South East is nearly twice as densely populated as the Netherlands. This overcrowding results in substantial congestion costs. A recent report by the Downing Street Strategy Unit suggested that the number of commuters to London is expected to increase by between 10% and 20% by 2010^[23].

b) Housing

36. Household projections have recently been revised to take account of the higher immigration assumption published by the Government Actuary's Department. In the period 1996 - 2021, the number of households is expected to increase by 4.5 million of which about one third will be as a result of net inward migration^[24]. Meanwhile, a recent report on London, commissioned for the Mayor ^[25], predicted an increase in population of 700,000 over the next fifteen years to 8.15 million, much of this due to international migration. This will require 400,000 new houses and 130 new schools.

c) Social Implications

37. There has recently been growing attention to the social and cultural implications of large-scale migration. The effects on our social cohesion and sense of identity have become a concern. Opinion polls show 57% of respondents fear that Britain is losing her own culture^[26]. 27% of London's

population is now immigrants and non-white ethnic groups comprise 29%. Children in London schools speak more than 300 languages and 20% of pupils in Secondary schools are not fluent in English.

38. There is growing evidence of public concern. A research study conducted for the Commission for Racial Equality by MORI in April/May 2002[27] found that:

Among all ethnic groups, there is a feeling that there are too many immigrants in Britain - 61% of the overall population agree with the statement as well as 46% of ethnic minority groups.

39. More recent surveys show that 74% believe that too many immigrants are coming into this country [28]. This may well be because 76% agree that Britain is already overcrowded[29]. This is not a racial issue since 87% agree, or tend to agree that you don't have to be white to be British[30].

40. Similar concerns were expressed by the Cohesion Panel - a group of 200 "Practitioners" established by the Government to provide advice in the light of the riots which took place in some Northern cities. They reported in July 2004[31] as follows:

We recognise that inward migration does create tensions and that these do not necessarily revolve around race. It is easier for the more affluent communities to be tolerant towards newcomers as they do not perceive them to be a threat. by contrast, many disadvantaged communities will perceive the newcomers are in competition for scarce resources and public services, such as housing and school places. The pressure on resources in those areas is often intense and local services are often insufficient to meet the needs of the existing community, let alone new comers, these fears cannot be disregarded.

Further, there are other concerns about the speed at which newcomers can be accommodated. Housing, education, health and other services all take time to expand. But people also take time to adjust. The identity of the host community will be challenged and they need sufficient time to come to terms with and accommodate incoming groups, regardless of their ethnic origin. The "pace of change" (for a variety of reasons) is simply too great in some areas at present" (July 2004).

Conclusion

41. This paper demonstrates that the main economic arguments adduced by the Government in favour of large scale immigration simply do not stand up to critical examination. Yet there are serious economic and social costs that cannot be quantified. The economic costs are those of congestion - from water suppliers in the South East to waste disposal and shortage of land for housing and airport

runways - not to speak of traffic jams and crowded trains. Socially, there is added strain on cohesion and on public services. A range of serious commentators have concluded that the issue cannot, and should not, be decided on economic grounds;

42. Professor Mark Kleinman, writing in the Political Quarterly, [32] concluded the following:

In broad terms, the economic impact of migration is positive for the destination country: but the size of the impact is not great, and there are distributional consequences to consider. .. The economic arguments alone will not be (and should not be) decisive.

Martin Wolf wrote[33]:

The desirability of sizeable immigration is a matter more of values than of economics. It is not a choice between wealth and poverty, but of the sort of country one desires to inhabit.

ANNEX A

International experience

1. Immigration is likely to add something to our total economy since most people produce something. However, in terms of wealth per head, all serious studies have found that the effect is minimal.
2. In the **United States** a study by the National Research Council in 1997 found that the benefit of immigration added about one tenth of 1% of GDP per head per year. In the period studied, immigration to the US was comparable to that which is now taking place in the UK.
3. The United States government committee which commissioned the report recommended that immigration rates to the US should be halved (but the Clinton administration did not act on it).
4. In **Canada** the Economic Council of Canada reported in 1991. They stated that:

A historical perspective gives little or no support to the view that immigration is needed for economic prosperity. In the 19th and early 20th centuries, the fastest growth in per capita real incomes occurred at times when net immigration was nil or negative. Later in the 20th century, the opposite linkage is seen but, clearly, there is no long-term correlation." (page 19)

They continued:

With respect to per capita disposable incomes, an increase in immigration has a positive effect, but it is very small." (page 131)

5. In the **United Kingdom** there have been no major studies, partly because relevant statistics are hard to obtain. However, Mark Kleinman, writing in the Political Quarterly^[34] concluded the following:

In broad terms, the economic impact of migration is positive for the destination country; but the size of the impact is not great, and there are distributional consequences to consider. .. the economic arguments alone will not be (and should not be) decisive.

6. In **Holland** a study by the Netherlands Bureau for Economic Policy Analysis, part of the Ministry of Economic Affairs, produced a wide ranging study of the impact on the economy of the Netherlands (www.cpb.nl).

7. The study, published in June 2003, concluded that immigration of labour has had the following effects:

a) The GDP will increase, but this increase will accrue largely to the immigrants in the form of wages;

b) The overall net gain in income of residents is likely to be small and may be even negative.

ANNEX B

FAMILIAR MYTHS

"We need immigrants to do the work that the British will not do". In many parts of Britain, where there are no immigrants, the British are indeed doing this work.

London will collapse without immigrants

Of course, nearly one third of Londoners are immigrants or their descendants. Nobody is suggesting that they are not needed. The question is how many more immigrants we need.

We need the skills that immigrants bring

Yes. We need a limited number. But this is no justification for the very large immigration now taking place.

The NHS would collapse without immigrant staff

Yes. We are currently importing about 15,000 nurses and 10,000 doctors every year. This is an indictment of the government's medical training but it is not a reason for nearly 250,000 immigrants every year. Nor is it easy to justify recruiting medical staff from developing countries which need them more than we do.

The high level of immigration is the result of our
booming economy

It is not a successful economy that is drawing people in but a failed immigration policy that is letting them in. Many immigrants are working at or below the minimum wage and, often, for longer hours than the law permits. This is exploitation, sometimes accompanied by threats of violence. It also holds down wages for the host community, especially the less skilled.

7 March, 2005

NOTES

- 1 Home Office Statistical Bulletin 12/04 - Table 3.1
- 2 Research Development and Statistics (RDS) Occasional Paper No 77, page 11
- 3 See Civitas web site <http://www.civitas.org.uk/>
- 4 Hansard 24 Jan 2005 Col 108W. Legal Aid of about 170m should be added to IND costs. Other costs are born by Local Authorities and the Dept of Health.
- 5 UK Balance of Payments Pink Book, Table 5.1
- 6 Hansard 10 Nov 2004. Col 827
- 7 Migrationwatch Briefing paper 1.5, www.migrationwatchuk.org
- 8 Lord McIntosh, 29 may 2004
- 9 Based on a comparison of the GAD 2003-based principal and natural change population projections. The principal projection assumed a net migration rate of 130,000 a year.
- 10 Migrationwatch Briefing Paper 1.5, www.migrationwatchuk.org
- 11 RDS Occasional Paper No 75, Para 1.1.1
- 12 Coleman, D <http://www.apsoc.ox.ac.uk/oxpop>
- 13 Chief Economics Commentator for the Financial Times writing on 27 Jan 2005
- 14 Alan Milburn, speaking on the Today programme 15 Jan 2005
- 15 Dobson et al 2003
- 16 Labour market Trends. March 2003, p113, and April 2003, p167
- 17 NESS 2003
- 18 NSO Population Trends No 118, winter 2004, page 11 Box three.
- 19 Ibid
- 20 ONS International Migration - Series MN29 table 2.8
- 21 RDS Occasional Paper No 77, Figure 3
- 22 Source: ONS World Population Densities by Country, Social Trends 33.
- 23 No 10 Strategy Unit, London Analytical Report, page 30
- 24 Migrationwatch Briefing paper 7.4, www.migrationwatchuk.org
- 25 Planning for London's growth, March 2002
- 26 MORI Survey Jan 2003
- 27 CRE Document "Britain Beyond Rhetoric", April-May 2002
- 28 YOUNGOV December 2004, British Social Attitudes Survey 2004
- 29 YOUNGOV August 2003 and April 2004.
- 30 MORI Jan 2003
- 31 Source: "The End of Parallel Lives", Report of the Community Cohesion Panel, July 2004, Home Office web site.

32 "The Politics of Migration, Blackwell 2003.

33 Financial Times 14 April 2004

34 The Politics of Migration, edited by Sarah Spencer, published