



www.migrationwatchuk.org

THE ECONOMIC CASE FOR IMMIGRATION. MIGRATIONWATCH DIALOGUE WITH THE HOME OFFICE.

Background

In June 2005, Migrationwatch submitted to the EU Sub Committee of the House of Lords a critique of the government's shifting arguments (seven in all) for the present large scale immigration. This was sent to the Home Office whose reply to each argument is below together with a final comment (in italics) by Migrationwatch. The Home Office have clearly backed off one. Meanwhile, two others have been dismissed by the Statistics Commission, one by the Turner Commission and one has been falsified by events. The jury is still out on the fiscal contribution of immigrants. The final argument is the contribution of immigration to Gross Domestic Product (GDP); but, even on the government's own figures, the annual benefit to the host community, is only about 2 per week for the average family [1]

Home Office introduction

Allegations have been made that, over the past three years, the government has kept changing its arguments for large-scale immigration, as each one is shown to be faulty. They are set out below with our responses.

Migration seeks to support wider government economic objectives of economic growth and increased productivity. Migration policy therefore needs to be carefully designed in order to bring in the migrants who can best contribute to these objectives. In particular these migrants are highly skilled who through their knowledge and earnings can raise economic growth, productivity and the welfare of the population as a whole. Migration policy is also used to fill important gaps in the labour market to ensure that the UK economy remains as dynamic and flexible as possible.

Many of the statistics which Migrationwatch criticises have not been used as justifications for migration but to illustrate that the policy has been having some success. The 5 year strategy is about building upon and improving this in the context of other objectives around simplification and improved control mechanism. In many cases Migrationwatch's interpretation of the statistics is inaccurate - as set out below.

It should also be noted that the government does not have a policy of seeking 'large-scale; migration. The UK is a growing economy and it is essential that we have the people and skills we need for our businesses to be able to operate in a competitive global economy.

MW COMMENT:

If there is no policy of large scale immigration, why has net immigration been allowed to increase by a factor of five under the present government? Is there, in fact, a policy?

1. Legal immigration will reduce false asylum seekers.

MW: This was first floated by Mr Blunkett in a speech to the Social Market Foundation on 26 June 2002. Migrationwatch pointed out that the 10 countries which produced the most asylum seekers and the 10 countries that produced the most applications for work permits were entirely different - except for China where both asylum seekers and work permits had increased. In May 2004 the National Audit Office, reporting on asylum statistics, said that "There is no significant statistical relationship between the number of work permit applications and asylum application's over the period".

Response:

This point was raised by the then Home Secretary with respect to the possible introduction of low-skilled routes. As such, MW's comment re the nationality of work permit holders (who are more highly skilled) is largely missing the point. The Home Sec was talking about creating a legal route to respond to employer demand for low-skilled workers, which might also reduce the numbers trying to come here illegally, not people using the Work Permit route. The quote MW take from the National Audit Office (NAO) report is similarly focusing on the different issue of work permits and this part of the NAO study was investigating and dismissing the claim some had made that the reason asylum numbers were going down was that the HO was simply giving them work permits. Again, different to the point the Home Secretary was making.

MW COMMENT:

Whatever the Home secretary is now said to have meant, the government have abandoned this argument, perhaps because immigrants from Eastern Europe have provided unskilled labour on a scale far in excess of the government's forecast.

VERDICT: The government have backed off.

2. Immigrants are needed to pay our pensions.

MW: The House of Lords Economic Affairs Committee dismissed this argument in November 2003. They reported "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". The UN World Economic and Social Survey put it even more strongly in November 2004: "Incoming migration (To Europe) would have to expand at virtually impossible rates to offset declining support ratios, that is, workers per retirees".

Response:

The government's position is that migration may be able to play a part in helping address the challenges of an ageing population (there is some evidence that National Insurance contributions would have to be higher under lower migration scenarios). However, the Government has always recognised that addressing these challenges requires a whole range of policy responses, including most importantly extending working lives and reform of the pension system. Migration policy is not specifically designed to address demographic issues. (emphasis added)

MW COMMENT:

The passage in italics is a far cry from the original claim that "we need immigrants to pay our pensions".

VERDICT: The government have backed off this argument also. Meanwhile the final report of the Turner Commission on Pensions made no mention of immigration - perhaps because he had dismissed the argument in his first report in the following terms:

"Only high immigration can produce more than a trivial reduction in the projected dependency ratio over the next 50 years. Net inward migration at +300,000 per year could bring the 2040 old-age dependency ratio down from 47.3% to 42.1%. But it is important to realise that this would only be a temporary effect unless still higher levels of immigration continued in later years, or unless immigrants maintained a higher birth rate than the existing population, since immigrants themselves grow old and become pensioners who need workers to support them." (Pensions: Challenges and Choices. The First Report of the Pensions Commission)

3. Immigrants make a net fiscal contribution of 2.5 billion per year

MW:An investigation by Robert Rowthorn, Cambridge Professor of Economics, concluded that the outcome depended on the assumptions made but that the impact was probably neutral. The authors of this (Home Office) estimate themselves said that the tentative nature of the estimate should be emphasised. The Institute of Public Policy and Research (IPPR) has since described this claim as "meaningless". They have produced a further calculation which Migrationwatch are examining.

Response:

The fiscal element is only one part of migrant's economic contribution. It is true that the absolute number will vary from year to year and in accordance with the budget cycle. The IPPR said it was 'meaningless' not to put the figure in this wider context - it did not describe the finding itself as 'meaningless'. However, the key finding from this piece of research was that migrants make a relatively greater contribution to the public finances than non-migrants. This gap in relative contributions has indeed been shown to have widened in recent research by IPPR which confirmed and updated the earlier Home Office (HO) work. The research inevitably requires a number of assumptions to be made - these are very clearly set out in the original report. The simple facts are that migrants are more likely to be of working age and have higher average earnings; so it is likely that under any plausible assumptions they will yield a net benefit.

The study includes the dependent UK-born children of migrants - likely to be a net fiscal cost. Defining migrants as the foreign-born, and consequently excluding their UK-born dependants, would raise the estimated net fiscal contribution from 2,5 bn to 5 billion.

MW COMMENT:

To exclude UK-born dependants would be grossly misleading. Children cost the State large sums of money (eg. about 5,000 a year for education alone). Although UK-born children of migrants are not migrants themselves they would not be here if their parents hadn't migrated. The cost should therefore clearly be attributed to the migrant population. The second IPPR report will be examined as soon as they clarify their methodology and release their data for peer review. The more important issue is the impact of migration on GDP per head (see below).

VERDICT: The jury is still out on whether migrants do actually make a larger fiscal contribution than the UK-born.

4. Immigrants comprise 8% of the population but contribute 10% of GDP.

MW:

This is just a simple miscalculation. The Government have omitted from the immigrant population their dependent children who were born in the UK. If included, the immigrant share of the population is 10% which is also their contribution to GDP.

Response:

The correct Home Office and Her Majesty's Treasury (HMT) statement is that migrants comprise 8% of the working age population and yet contribute 10% to GDP. It is the working age population which are relevant to GDP. Whether or not migrants have dependant children is simply not relevant to this point (though it is to the point on fiscal contribution above). Migrants contribute disproportionately to GDP due to their higher than average productivity.

MW COMMENT:

We took this point up with the independent Statistics Commission. They came down on our side. The Chairman wrote:

"We agree that the statement appears to be incorrect but suspect that the authors of the consultation document have simply made a mistake..." The points discussed above highlight again a concern that the Statistics Commission has raised in other contexts - where policy documents rest their arguments on statistical statements those statistical statements ought to be formally approved by professional statisticians. It is not enough to get the statistical points "more or less right". We will raise this with the Office for national Statistics and the Home Office."

In this case, the Home Office have still not understood the point. Migrants of working age actually make up 10% of the working age population and contribute 10% to GDP - so, overall they are no more productive per head than the UK born. The Home Office statement is, therefore, incorrect. They are misquoting the original Treasury statement that migrants make up 8% of the working population - which is true. The difference between the two is that migrants have a lower participation rate.

VERDICT: Time for the Home Office to back off an argument rejected by the Statistics Commission

5. Growth would be nearly % lower without net immigration

MW:

This was the Prime Minister's claim to the Confederation of British Industry (CBI) on 27 April 2004. In fact, the Treasury's figure (which is based purely on the addition to the working age population) is 0.4% but the population is also increased by 0.26% so the benefit in terms of GDP per head is, on this basis, more like 0.14%. (Even this small benefit is reduced as migrants have children and eventually retire, both of which add to the dependant population). This is a result consistent with studies in the US, Canada and Holland. In the UK this amounts to about 25 per head per year. (See also The Spectator article of 5 June 2002).

Response:

MW seem to agree this figure (the first part of this comment is that the true figure is 0.4% when the

PM said "nearly 0.5%") which is based purely on HMT's published trend growth forecasts. It is true that this does not in itself capture GDP per head though MW's calculation still produced a GDP per head benefit. In any case it is likely that the 0.4% is an under-estimate of migrant contribution to GDP because migrants are more productive than the non-migrant population (higher skills, higher salaries and more likely to be of working age) and through having positive spill over effects.

MW COMMENT:

This is the key issue. The Home Office accept that the benefit per head for the indigenous population is very small because migrants also add to population. Even on the government's own figures it amounts annually to only about 2 per week for an average family (see footnote 1).

VERDICT: No disagreement by the Home Office on the orders of magnitude. Nor any challenge to major studies conducted in other countries. The outcome is an almost insignificant benefit, in terms of GDP per head, to the host population.

6. 600,000 vacancies need to be filled.

MW:

Between August 2001 and 2004 net immigration was about 700,000 but vacancies are still running at about 600,000.

The reason is that immigrants also generate demand. So the argument from "shortages of labour" created open-ended demand for more immigration (See Martin Wolf in the FT, 27 January 2005).

Response:

The fact that there are 600,000 vacancies to be filled is not the only or indeed the main reason for migration. It is true that there is not a fixed stock of labour. This is partly demonstrated by the evidence that migration has not had an adverse impact on the labour market outcomes of the domestic labour force. Rather, as the experience of EU accession has shown, labour has been generally flowing to sectors that have been experiencing recruitment difficulties and the main effect has been to boost output and employment in these sectors.

Furthermore, Migrationwatch seem to argue that migration is the sole cause of demand for labour. This is not the case - migration may create some jobs (a positive effect) but the main reason for the large numbers of vacancies is the health of the UK economy.

However, of these 600,000 vacancies a significant number are described by employers as hard to fill. Our migration policy can, alongside other policies and efforts by employers help to deal with the short-term disequilibria in the labour market, and avoid shocks and volatility in the economy. Government's approach is a balance between a focus on helping priority groups, such as lone parents, people on incapacity benefits and over 50s back into the labour market; but also recognising that there is likely to be a continuing need for some migration to meet demand for labour in certain sectors or parts of the country, either from within the EU or from outside. It is important that migration supports the smooth operation of the labour market - through meeting demonstrated needs that cannot be met from elsewhere - and does not unnecessarily disrupt it.

MW COMMENT:

No denial that vacancies are at about the same level as three years ago, as reflected in the Labour Force Survey. So why have the Home Office used the existence of vacancies as an argument for immigration? The reason that some vacancies are hard to fill is that the training system is weak; it would be weakened further if employers could recruit off the shelf overseas.

VERDICT: The Home Office are shifting their ground. The original argument was very weak.

7. Immigrants earnings are 17% higher than those of indigenous workers.

MW: True - for those in work, but participation rates are lower and unemployment higher. Correcting for those differences makes the average wages of immigrants about the same as for the population as a whole.

Response:

What MW say about migrant's participation and unemployment rates is true - this is why the government has extensive policies to assist this, for example on refugee integration and helping other groups disadvantaged in the labour market. It is a separate issue that migrants who are in work on average earn more than non-migrants (the most up to date figure we have on this is 13%) indicating that they are more highly skilled and more productive. The fact that migrants in work overall earn this much more illustrates that our managed migration policies are successfully targeting high skilled and high paid migrants. This is something the 5 year strategy intends to build on.

MW COMMENT:

Waffle. As the recent Institute of Public Policy and Research (IPPR) report (Beyond Black and White) has shown the economic performance of migrants varies enormously. It is not possible to draw overall conclusions about productivity of migrants from an average earnings figure.

VERDICT: The Home Office have conceded the main point, namely that average wages for immigrants, if averaged over the whole working age population, are roughly the same as for the population as a whole.

The Chairman of the Statistics Commission commented as follows:

"We recognise the validity of (your) point..However, we have a different statistical reservation about the statement on the wages of migrant workers. The use of arithmetic averages in relation to earnings is problematic. The majority of people earn below the average. The distribution tends to be skewed by a small number of high earners. This does not invalidate the statement in statistical terms but it raises a question about how meaningful it is. It may, for the sake of argument, indicate only that there are relatively more high earners among the foreign born and give little indication about the wages, let alone the productivity, of the rest."

8 January, 2006

NOTES

- 1 GDP is current c£1,200 billion. The UK's population is £60 m. - So GDP per head is c £20,000. 0.14% of this is £28 p.a. or £0.54 p.w. For an average family about £2 p.w.