

## ▶ 3. Does the economy need immigration?

- There is no evidence that net immigration generates significant economic benefits for the existing UK population.
- The Government's own figure for the annual benefit of immigration is 62 pence per head per week.
- The overall benefit to the Government's revenues is likely to be small.
- Immigration is not the answer to the pensions problem.

### The Government's argument

The Government have justified its immigration policy largely on the basis of four principal economic arguments:

- Immigration greatly benefits the UK economy in terms of GDP.
- Immigration generates fiscal benefits for the Government.
- Immigrants are needed to fill labour and skills shortages, doing jobs that British workers will not do.
- Immigrants help deal with the pensions problem.

### The House of Lords Report

The House of Lords Select Committee on Economic Affairs conducted a major enquiry into the economic impact of immigration – the first of its kind in Britain. The Committee included peers from all the main political parties, among them a former Governor of the Bank of England, a former Director General of the Confederation of British Industry and two former Chancellors of the Exchequer. The report was unanimous.

The Select Committee's overall conclusion was that:

**“We have found no evidence for the argument, made by the Government, business and many others, that net immigration – immigration minus emigration – generates significant economic benefits for the existing UK population.”<sup>1</sup>**

Their main recommendation was that:

**“The Government should have an explicit and reasoned indicative target range for net immigration and adjust its immigration policies in line with that broad objective.”<sup>2</sup>**

1 House of Lords Select Committee on Economic Affairs, *The Economic Impact of Immigration*, 1 April 2008, Abstract, para. 1

2 *Ibid*, Abstract, final paragraph

The Committee's assessment of the Government's main arguments was as follows:<sup>1</sup>

*The Government's case:*

*Immigration generates large economic benefits for the UK because it increases economic growth.*

The House of Lords Select Committee:

“Overall GDP, which the Government has persistently emphasised, is an irrelevant and misleading criterion for assessing the economic impacts of immigration on the UK. The total size of an economy is not an index of prosperity. The focus of analysis should rather be on the effects of immigration on income per head of the resident population. Both theory and the available empirical evidence indicate that these effects are small, especially in the long run when the economy fully adjusts to the increased supply of labour. In the long run, the main economic effect of immigration is to enlarge the economy with relatively small costs and benefits for the incomes of the resident population.”<sup>2</sup>

*The Government's case:*

*Immigrants are needed to fill labour and skills shortages and do the jobs that British workers will not do.*

The House of Lords Select Committee:

“Although the evidence is limited, there is a clear danger that immigration has some adverse impact on training opportunities and apprenticeships offered to British workers.”<sup>3</sup>

“Many businesses and public services at present make use of the skills and hard work of immigrants but this is not an argument for immigration on a scale which exceeds emigration and thus increases the population of the country. **We do not support the general claims that net immigration is indispensable to fill labour and skills shortages. Such claims are analytically weak and provide insufficient reason for promoting net immigration.** Vacancies are, to a certain extent, a sign of a healthy economy. Immigration increases the size of the economy and overall labour demand, thus creating new vacancies. As a result, immigration is unlikely to be an effective tool for reducing vacancies other than in the short term.”<sup>4</sup>

“**The argument that sustained net immigration is needed to fill vacancies, and that immigrants do the jobs that locals cannot or will not do, is fundamentally flawed.** It ignores the potential alternatives to immigration for responding to labour shortages, including the price adjustments of a competitive labour market and the associated increase in local labour supply that can be expected to occur in the absence of immigration.”<sup>5</sup>

1 Ibid. para 3

2 Ibid. Abstract, para. 2

3 Ibid. para. 220

4 Ibid. Abstract, para. 4

5 Ibid. para. 228

The Select Committee also observed that:

“Immigration has had a small negative impact on the lowest paid workers in the UK, and a small positive impact on the pay of higher paid workers.”<sup>1</sup>

“The available evidence is insufficient to draw clear conclusions about the impact of immigration on unemployment in the UK. It is possible, although not yet proven, that immigration adversely affects the employment opportunities of young people who are competing with young migrants from the A8 countries.”<sup>2</sup>

*The Government’s case:*

*Immigration generates fiscal benefits for the UK.*

The House of Lords Select Committee:

“We also question the Government’s claim that immigration has generated fiscal benefits. Estimates of the fiscal impacts are critically dependent on who counts as an immigrant (or as a descendant of an immigrant) and on what items to include under costs and benefits. **The overall fiscal impact of immigration is likely to be small**, though this masks significant variations across different immigrant groups.”<sup>3</sup>

*The Government’s case:*

*Immigration helps to defuse the “pensions timebomb” by helping to support an increasing population of elderly people in the UK.*<sup>4</sup>

The House of Lords Select Committee:

**“Arguments in favour of high immigration to defuse the “pensions time-bomb” do not stand up to scrutiny** as they are based on the unreasonable assumption of a static retirement age as people live longer, and ignore the fact that, in time, immigrants too will grow old and draw pensions. Increasing the official retirement age will significantly reduce the increase in the dependency ratio and is the only viable way to go.”<sup>5</sup>

This finding was supported by the Turner Commission on Pensions (2006), which found that “Only high immigration can produce more than a trivial reduction in the projected dependency ratio over the next 50 years...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.”<sup>6</sup>

According to the Government Actuary, the UK would need to import an average of 1.2 million immigrants a year to keep the support ratio of workers to pensioners at the present level of 3.23 in 2050.<sup>7</sup>

1 Ibid. para. 217

2 Ibid. para. 219

3 Ibid. Abstract, para. 5

4 See the IPPR’s evidence given to the House of Lords Select Committee on Economic Affairs for their report into the Economic Impact of Immigration, p 302

5 House of Lords Select Committee on Economic Affairs, The Economic Impact of Immigration, 1 April 2008, para.158

6 Pensions Commission: Pensions: Challenges and Choices, The First Report of the Pensions Commission: Chapter 1 – Demographic Trends and Dependency Ratios

7 GAD, Shaw 2001

## *The Government's response*

The Government's response to the House of Lords report was published in June 2008.<sup>1</sup> It virtually ignored the key recommendation, that the Government should have "an explicit and reasoned indicative target range for net immigration and adjust its immigration policies in line with that objective". Instead, it repeated the Government's plan to use their Points Based System "to maximise the benefits of migration to the UK". It claimed that a cap or quota would lack flexibility and would cover only a small proportion of migrants.<sup>2</sup>

Elsewhere, the response spoke only of managing "transitional impacts" – apparently with no understanding of the huge permanent impact of massive levels of immigration on our population, environment and our society. The extra seven million people in England alone by 2031 as a result of immigration was not even mentioned.

The Government's response recognised the prime importance of GDP per head, claiming (wrongly) that this had always been their position. The Government itself estimated that immigration over the ten years to 2006 had raised GDP per head of the non-immigrant population by 0.15% per year. A more sophisticated calculation came out at 0.10% per year. So the Government's own estimate of the benefit to individuals **amounted to 62p and 42p per head per week in 2006.**<sup>3</sup>

On the benefit to the Exchequer, the Government recognised that the results depended heavily on the assumptions made.<sup>4</sup>

On employment, the Government continued to find no negative effects from immigration although "it was possible, but not proven, that immigration might have an adverse effect on job prospects for young workers". They recognised some evidence of wage dampening for the lowest paid workers.<sup>5</sup>

Only one paragraph (2.32) in the 37-page report dealt with housing. This admitted that net international migration accounted for one third of household growth but failed to recognise that immigration is the only demand factor over which the Government have any significant influence.

1 CM 7414

2 Ibid. paras. 4.47 to 4.54

3 Ibid. para. 2.7

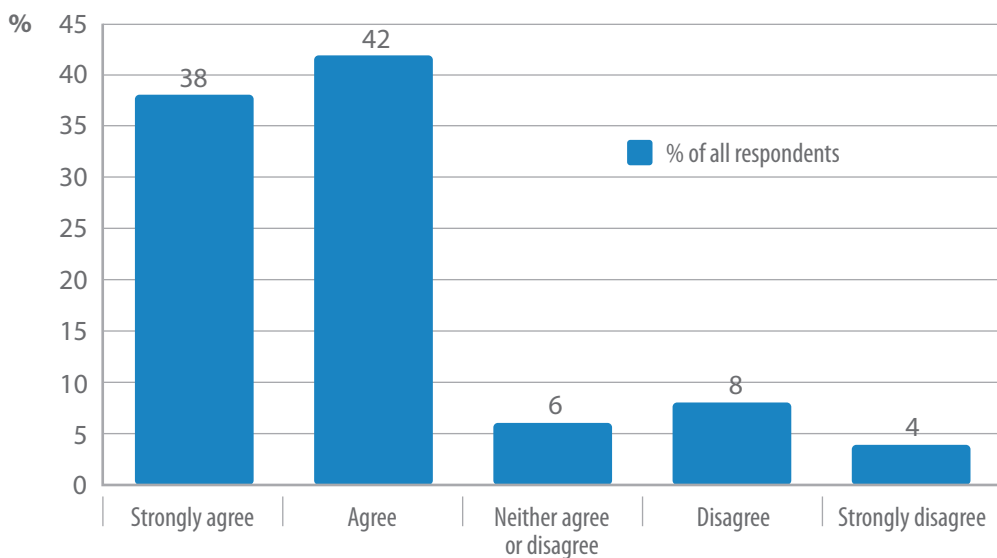
4 Ibid. paras. 2.16 to 2.20

5 Ibid. paras. 2.13 to 2.15

## The business perspective

Business leaders agree that immigration needs to be controlled. The Institute of Directors surveyed its members and found that 80% agreed or agreed strongly with the principle that there should be a limit of some kind on the number of migrants from outside the EU entering the UK each year.<sup>1</sup>

Fig. 10: To what extent do you agree or disagree with the principle that there should be a limit of some kind on the number of migrants from outside the EU entering the UK each year?



There was also widespread agreement that migration policy should take account of wider issues:

Fig. 11: To what extent do you agree that migration policy should also take into account issues such as...?

