



Too much of a good thing?

Towards a balanced approach to immigration

PETER LILLEY MP

CENTRE FOR POLICY STUDIES
57 Tufton Street London SW1P 3QL
2005

THE AUTHOR

PETER LILLEY is MP for Hitchin and Harpenden. He has served as Deputy Leader of the Conservative Party, Shadow Chancellor, Secretary of State for Trade and Industry and Secretary of State for Social Security. He is the author of a number of recent pamphlets, including *Identity Crisis: the case against ID cards* (Bow Group, 2005), *Save our Pensions* (Social Market Foundation, 2003), *Taking Liberties* (Adam Smith Institute, 2002), *Common Sense on Cannabis* (Social Market Foundation, 2001), and *Patient Power* (Demos, 2000).

The aim of the Centre for Policy Studies is to develop and promote policies that provide freedom and encouragement for individuals to pursue the aspirations they have for themselves and their families, within the security and obligations of a stable and law-abiding nation. The views expressed in our publications are, however, the sole responsibility of the authors. Contributions are chosen for their value in informing public debate and should not be taken as representing a corporate view of the CPS or of its Directors. The CPS values its independence and does not carry on activities with the intention of affecting public support for any registered political party or for candidates at election, or to influence voters in a referendum.

ISBN No. 1 903219 95 7

© Centre for Policy Studies, March 2005

Printed by 4 Print, 138 Molesey Avenue, Surrey

CONTENTS

Preface

Summary

1. The numbers	1
2. Government policy	5
3. Does immigration enrich us economically?	11
4. The true economic benefits of immigration	27
5. Housing and land	30
6. Recommendations	36

PREFACE

FEW SUBJECTS AROUSE such widespread concern and strongly held views – for and against – as immigration.

On most issues there is lively discussion about alternative policies, the pros and cons and trade-offs between them. Immigration is different.

Whenever I mention to people that I am researching the subject their advice, without exception, is: “Don’t even think about it. You will either be dismissed as a libertarian crank or labelled a racist”. When I was writing in favour of legalising cannabis, friends urged caution – but nothing like this.

Fear of being labelled racist has certainly stifled intellectual debate. All censorship has malign consequences and this is no exception. Moderate commentators, who have a positive view of immigrants and want a generous approach to refugees but believe in restricting the total numbers of people settling here, have been effectively silenced. Now the election has forced immigration into the limelight we urgently need a moderate case for some, but limited, immigration. Because no one has put that case, the contest has been between those who oppose any immigration at all and those who oppose all limits on immigration.

Experience of living in areas with a large number of immigrants, knowing them as neighbours and working with them as constituents has convinced me that the caricature of immigrants – as scroungers, criminals and a threat to society – is the reverse of the truth. The overwhelming majority of immigrants are decent, hard working, law abiding people who want to make a positive

TOO MUCH OF A GOOD THING?

contribution to this country. They tend to epitomise the values of enterprise and family cohesion that I as a Conservative admire. Furthermore, the decent majority of British people are not hostile to immigrants as people. They also instinctively recognise that stopping all immigration would damage the economy. But they do not conclude that we should therefore relax all restrictions on settlement in this country. If moderate mainstream politicians do not present the public with a reasonable case for allowing some, but not unlimited amounts, of immigration, voters will become increasingly susceptible to the irrational appeal of extremist parties like the BNP.

Throughout this pamphlet, the term “immigrant” refers to people (be they Belgian bankers or Bangladeshi catering workers) coming to work or settle here. The terms British, resident or native refer to the existing population of all races.

The suppression of moderate debate has been convenient for the Government. Their immigration policies and the arguments they use to justify them largely escape serious scrutiny. For example, it is astonishing that Government policy underwent a reversal – moving from ‘severe restriction’ to active ‘encouragement’ of immigration without the liberal media reporting that fact. Because this change of objectives has gone unreported, the public still assumes that the Government is trying to restrict the total inflow into the UK. They are aware that immigration has accelerated sharply but assume this is due to the failure of policy rather than the reversal of policy. They conclude that most immigration must be illegal or exploitation of the asylum system. The Government fosters this illusion by regular claims to be cracking down on illegal immigration and abuse of asylum laws. Its pre-election pledges are designed to reinforce this impression while still leaving them free to continue to encourage more immigration should they win the next election.

The arguments the Government uses to explain why higher immigration is necessary are largely exempt from criticism. By

FOREWORD

contrast, populist arguments *against* immigration are rightly subjected to merciless criticism by the liberal media. As it happens, the arguments the Government uses to justify higher immigration – that it promotes economic growth, fills labour shortages, staffs the public services, boosts the public finances and will pay for our pensions – are often the mirror image of the populist arguments (that immigration takes away British jobs, creates unemployment and is a burden on the public services and the taxpayer). Both sets of arguments have three things in common: they are plausible, they are bogus, and they rely on the same economic fallacies. Both deserve to be debunked.

If the Government's arguments in favour of more immigration were valid, they would destroy the case for restricting it at all. They imply that the more immigrants we allow in, the better off the resident population will be. That matters because civil servants take ministers at their word. They therefore set about developing, interpreting and implementing policy accordingly. As we shall see, that is exactly what they have been doing. They also feel it is their duty to conceal those consequences of large scale immigration which do not conform to the rosy arguments enunciated by Ministers – hence their refusal to acknowledge the extent to which the Government's unpopular house-building targets are driven by immigration.

There is an obvious humanitarian case for helping refugees. But there is also a strong case for *some* economic migration. A two-way flow of skilled workers is natural and desirable in an open economy. To stop migration entirely would not only be impractical but would inflict significant damage on the economy. Some immigration undoubtedly enriches this country both economically and culturally. Beyond a certain point, however, there is little reason to suppose that an increased inflow will enrich us much further. On the other hand the problems resulting from immigration – not least the pressures on housing and land – do rise in proportion to the numbers settling here. The economic benefits that the Government invokes are largely imaginary and divert attention away from

TOO MUCH OF A GOOD THING?

identifying the real benefits which can flow from certain limited kinds of immigration. These benefits need to be understood so that policy can be tailored to maximise them.

There is therefore a strong case for some, but not unlimited, immigration. So recent Conservative proposals to impose a ceiling on the annual inflow makes a great deal of sense. However, a Conservative Government should go further: it should harness market forces to restrain immigration by charging employers fees for work permits that fully reflect the social, environmental and housing costs of increased population. Such fees could possibly be established by auctioning to employers some of the strict quota of permits. These charges would also protect resident workers from being undercut; maintain incentives to acquire scarce skills and prevent employers treating those on work visas as indentured labour. Such an approach would be:

- based on a positive view of the contribution individual immigrants make to the nation's life;
- compatible with a belief in markets and understanding of how they work;
- and a measured approach to public concerns.

This pamphlet is a modest contribution to that task.

Peter Lilley
March 2005

SUMMARY

- The big rise in recorded immigration is not so much the result of Government's failure to control it as the success of its largely unreported policy to "encourage... sustain and... increase lawful immigration".
- This change of policy escaped critical attention since fear of accusations of racism stifles serious debate. Now the election has forced the issue into the limelight, the moderate case for some limited immigration needs to be made.
- The caricature of immigrants as scroungers, criminals and a burden on society is the reverse of the truth. Most are decent, hard working, law-abiding people who want to make a positive contribution.
- The Government argues that immigration promotes growth, fills shortages, staffs public services and boosts the public finances. These arguments are the mirror of populist arguments against immigration: that immigrants take British jobs, burden the public services and cost the taxpayer. Both sets of arguments are false.
- **Growth:** immigration contributes to the growth of the work force and total output. But that does not mean, as the Government claims, that it increases per capita incomes.
- **Shortages:** migration cannot, as the Government claims, assuage a general excess demand for labour since immigrants add to demand for goods and services as much as they contribute to increased supply.

TOO MUCH OF A GOOD THING?

- **Fiscal benefits:** the Government's claim that immigrants collectively pay more taxes than the cost of their benefits and public services they use is flawed. The data also ignored the large pension liabilities they are accruing.
- **Pensions:** today's immigrants will become pensioners when the demographic problem they are supposed to alleviate is most acute. To maintain the current ratio between working age and retired people would require over a million immigrants, year in year out.
- Immigrants enrich us economically and culturally. But the benefits do not increase in proportion to numbers whereas the problems (e.g. pressure on housing) do.
- Net immigration will account for a third of extra households by 2031. Since brownfield sites provide two thirds of new homes, net immigration is the main reason for green field development.
- The total inflow should be limited to meet humanitarian obligations and genuine economic benefits. In particular:
 - rules for work permits should be restricted to secure the genuine benefits of immigration;
 - market forces should be harnessed to restrict the inflow of immigrants by charging employers for work permits a sum reflecting the full environmental, housing and administrative costs of extra people.
- This would protect UK workers from being undercut, maintain incentives for Britons (of all races) to acquire scarce skills and free immigrant workers from being indentured to an employer if they or their new employers pay the cost of their remaining visa period.
- The policy objective should be to bring a balance between the inflow and outflow of non-EU citizens as soon as feasible. That would still leave scope for a gross annual inflow of nearly 200,000 non-EU citizens as well as the likely continuing inflow from new member states to which the UK is now committed.

CHAPTER ONE

THE NUMBERS

THE PUBLIC TENDS TO OVERESTIMATE the number of people who have come from abroad. For example a MORI poll asked “What percentage of the British population are immigrants to this country (i.e. not born in the UK)?” the average response was about 21% – more than double the true figure of 8.3%.¹

On the other hand the Government tends to play down the numbers. A Home Office memo released under the Freedom of Information rules revealed an official rebuke to ministers: “Can we please stop saying that Migrationwatch forecasts are wrong. I have pointed out before that Migrationwatch assumptions are often below the Government Actuary’s Department high migration variant.”

So it is useful to start by giving a few facts.

Sources

The Office of National Statistics (ONS) publishes annual estimates of “Migrants entering or leaving the UK”. Its main source is the

¹ Respondents may have confused the term ‘immigrant’ with ‘ethnic minority’ which includes subsequent generations. Even so, their perception is too high. On the other hand, when asked “How many asylum seekers and immigrants do you think come to Britain every year from outside the European Union?” the average reply was 113,000. This is well below Government figures for 2003 which show a net non-EU inflow of 222,000 and less than a third of the gross non-EU inflow of 343,000. www.mori.com/polls/2003/migration.shtml.

TOO MUCH OF A GOOD THING?

International Passenger Survey which involves interviewing one in every 500 people entering and leaving the UK. Those intending to stay for a year or more are classified as migrants. Adjustments are made for those who stay longer or leave earlier than their intention when interviewed. The figures are also adjusted to include asylum seekers who do not usually reveal their intention until after they have entered the country.

The figures reflect legal immigration only. No estimate is made of the number of illegal immigrants. The most recent year for which these figures are available is 2003.²

Totals

The ONS figures show that there were 513,000 in-migrants and 362,000 out-migrants in 2003. There was therefore a net inflow of 151,000 people into the UK.

Both gross and net figures have risen strongly in recent years. The net inflow has more than trebled from 47,000 in 1997. For most of Britain's history – including the post war decades when there was substantial immigration from the New Commonwealth – Britain was a net exporter of people. The UK only became a net importer on a consistent basis in the early 1990s.

Where are they from?

The figures for both in-migrants and out-migrants include British (and European) citizens. British people have consistently accounted for just over half the outflow but the proportion of in-migrants who are returning British citizens has fallen from a third a decade ago to under a fifth last year. So there was a net outflow of 85,000 British citizens in 2003 and a net non-British inflow of 236,000.

There are large flows in both directions with the EU, US and the Old Commonwealth. But the *net* inflow of citizens of these

² Office of National Statistics, 4 November 2004.

THE NUMBERS

countries is fairly small. People from developed countries typically come here to work for a limited period then return home. The major part of the net inflow into Britain is from less developed countries – New Commonwealth and non-Commonwealth Africa, Asia and Latin America – since fewer return to their home countries.

How do they enter?

Contrary to popular opinion, asylum seekers do not constitute the majority of the net inflow. The make up of the net inflow of non-EU citizens in 2003 was probably as shown in the table below. Each category shows the *net* inflow – incomers less those who may have entered in previous years but left in that year.

Estimated Breakdown by Reason of Entry 2003

Non-EU Citizens

Category	Number	Percentage
Asylum inc. accompanying dependants	30,000	14%
Work related inc. dependants	105,000	47%
Family formation	65,000	30%
Students and other	22,000	10%
Total non-EU net inflow	222,000	100%

Source: Migration Watch

Forecasts

The Government Actuary's Department makes projections of future UK population taking into account trends in migration. The latest estimates were published in September 2004. The central projection assumes net immigration runs at 130,000 a year in future. This is double their previous projections but below the net inflow over the last six years which averaged 157,000. They project an increase in the total population of 6.1 million by 2031 of which 84% – some 5.2 million people – is the result of net

TOO MUCH OF A GOOD THING?

immigration (including descendants). These figures also make no allowance for illegal immigration, nor for failed asylum seekers who stay on illegally, nor visa over-stayers.

Illegal immigration

By its nature, the scale of illegal immigration is unknown. The one category of illegal immigration about which there is reliable data is rejected asylum seekers. There are up to 250,000 asylum seekers who have been refused asylum or leave to remain but who have neither been removed nor are known to have departed. The other two categories of illegal immigrants are clandestine entrants and legal entrants who overstay their visa. It is important to recognise that many in these two categories may also be included in the first as any illegal entrant or visa overstayer can claim asylum. Regrettably, the Government does not record how many of the roughly 50,000 illegal entrants it has detained annually who then claimed asylum. Until recently, even undetected illegal immigrants had a strong incentive to claim asylum since, once they lodged a claim, they gained access to the benefit system, qualified for the right to work after six months and had immunity from removal while their claims and appeals were being assessed. These incentives have at last been curtailed. The recent reduction in asylum claims may simply mean that fewer illegal immigrants are now bothering to claim asylum.

Illegal immigration is an important issue. The Government claims to be strongly against it, and periodically announces crackdowns. This deflects attention away from the huge increase in lawful immigration which it has encouraged, and from its relaxation of border controls (for example, in 1997 it abolished exit checks so that now, for the 1.5 million visas that are issued every year, there are no checks on the number who depart).

The inadequate control of illegal immigration should not, however, distract attention from what is happening to legal immigration: which is the focus of this paper.

CHAPTER TWO

GOVERNMENT POLICY

PUBLIC OPINION IS strongly in favour of restricting immigration. Most people take it for granted that this is the Government's objective too. They therefore assume that the large rise in immigration in recent years must be because the Government's attempts to control it have failed – presumably because immigrants have entered illegally or by exploiting the asylum system. Even the Government's political opponents attack it for incompetence and “losing control of immigration”. In fact, the rise in legal immigration is largely the result of deliberate policy rather than the failure of policy. What is the evidence for this assertion?

The Government admits it

Government policy is now quietly to ‘encourage’, ‘sustain’ and even ‘increase’ legal immigration. The officials who wrote the Impact Assessment for the ID Cards Bill let the cat out of the bag. They wrote:

The Government wants to **encourage** lawful migration to the country... **sustaining** and perhaps **increasing** current levels of lawful immigration ... [emphasis added].³

Ministers try to avoid being so explicit. But when asked whether he thought the current level of net immigration into this country is too high, too low or about right the Home Secretary

³ Economic Impact Assessment of the Identity Cards Bill, November 2004.

TOO MUCH OF A GOOD THING?

replied: “I do not really have a view on that ...”⁴ Subsequently he said “we want more immigration, more people coming to study, to work... to look for refuge”.⁵ His predecessor, David Blunkett, when asked if there would be any limit to the number allowed to settle in the country, said “No. I see no obvious limit.”⁶

Ministers no longer even talk of ‘controlling’ immigration, only of ‘managing’ it. They laud the benefits of immigration at every opportunity. (Logically those benefits would also result from illegal immigration so the sharp distinction drawn between legal and illegal immigration can only be for rhetorical reasons.) They now refer to those seeking entry as ‘customers’ rather than applicants.

This is a clear reversal of the previous Government’s policy which was “to restrict severely the numbers coming to live permanently or to work in the United Kingdom.”⁷

The Government actively encourages it

The Home Office has written to businesses highlighting the potential benefits of recruiting employees – including lower skilled workers – from outside the EU.

Dear Sir or Madam:

Are you struggling to find the quality staff you need to run your business effectively? Do you want to employ an individual from outside Europe but aren’t sure how?... High, medium or low skilled vacancies can be filled from overseas... Work Permits(UK) is a department of the Home Office... We have set up a Small Business Unit with the specific aim of raising awareness of the work permit arrangements ...⁸.

⁴ Reply of Charles Clarke MP to Peter Lilley MP – Hansard 7 February 2005.

⁵ Charles Clarke MP, speech to Labour Party Spring Conference, 14 February 2005.

⁶ David Blunkett, speaking on Newsnight, BBC2, 12 November 2003.

⁷ Home Office Immigration and Nationality Department, *Annual Report*, 1994.

⁸ Home Office 2 May 2003.

GOVERNMENT POLICY

The Government has systematically made immigration easier

Since 1997 the Labour Government has:

- promised to give a decision on a work permit within 24 hours in 90% of cases – removing the possibility of any serious examination of the application;
- more than trebled the number of work permits issued annually from 47,000 in 1997 to 156,000 in 2004;
- abolished the ‘primary purpose rule’ making it easier to bring in spouses and fiancé(e)s;
- enabled several categories of students to apply for jobs in the UK at the end of their courses without returning home as previously required;
- allowed anyone with sufficient points to enter the UK to look for work without being sponsored by an employer under the Highly Skilled Migrant Programme (HSMP);
- increased uptake of the HSMP by reducing the points threshold since when the administration has been overwhelmed;
- introduced two new quotas for low skilled workers 9,000 for Hospitality and 6,000 for Food Processing;
- extended the Seasonal Agricultural Workers Scheme (SAWS) all year round;
- changed the SAWS quota from 10,000 in the 1990s to 25,000 in 2003. Half that quota was filled from states which are now EU members. Their citizens are now not included in the quota which has been reduced to 16,250, thereby effectively increasing the number available to workers from outside the enlarged EU;

TOO MUCH OF A GOOD THING?

- promoted the Holiday Workers Scheme, which was designed for the old Dominions, to New Commonwealth countries; and allowed participants to switch into work permit employment;
- changed the default position for many categories of applicant from ‘refuse unless they can prove a good case’ to ‘accept unless it can be shown that they are ineligible’. Hence the revelation that the Home Office were allowing in wholesale applicants from pre-accession countries who did not provide adequate documentation. Failure to provide the information necessary to decide whether they met the official criteria meant they were given the benefit of the doubt;
- Britain was the only major EU member that did not invoke restrictions on nationals of the new member states resulting in 130,000 workers registering for work here between May and December 2004.

It is remarkable that, because of the lack of debate on immigration in this country, the Government has been able to effect a significant change in policy without attracting attention.

Recent Government policy

The Government responded to recent Conservative proposals for an annual limit on the number of immigrants by announcing its own package of measures. These were clearly designed to give the impression that they would significantly reduce the level of immigration. If they had that effect, it should be welcomed. But that would represent a complete U-turn away from the policy of relaxation pursued over the last eight years.

On inspection, however, the Government’s proposals appear to be a smokescreen under the cover of which the Government is free to pursue its previous course. Those measures that are welcome are minor; and those which appear more substantial in fact leave the Government free to continue to “encourage, sustain

GOVERNMENT POLICY

and increase” the current unprecedented level of lawful immigration.

- **“Australian style points system for immigrants”.** This is the Government’s main proposal. But in Australia the points system works alongside an annual limit: points are used to select the most qualified applicants up to that quota. However, Tony Blair has refused to set an annual limit. Even he would have found it difficult to square a tight annual limit with his rhetoric about the importance of allowing immigration to meet the ‘needs’ of the economy.

Indeed, the Government already operates a points system without a quota: the Highly Skilled Migrants Programme, introduced in 2002. The Government initially set the number of points that defined the level of qualifications and experience needed to be considered Highly Skilled. When the number of qualified applicants turned out to be fewer than expected, the Government promptly reduced the number of points required. As a result, the number of applicants has surged, overwhelming the administration. In February 2005, they were still working on applications received in June 2004. In short, the Government has manipulated the points system to *increase* immigration rather than to restrict it. There is no reason to suppose they will do otherwise with a more comprehensive points system.

- **“No right of settlement for 5 years.”** The Government has proposed extending from four to five years the period before which migrants gain the right to apply for permanent settlement. This will be restricted to “skilled workers”. This is sensible enough, but will have little effect in practice. Most people from developed countries do eventually return home. By contrast, most people from developing countries want to

TOO MUCH OF A GOOD THING?

settle here. They will be prepared to work an extra year before applying. The minority who are not originally classified as skilled will still gain the right to settle if they acquire either skills or wives and children. Dr Michael Teitelbaum put it more emphatically in his evidence to Congress:⁹

There is no such thing as a *temporary* immigrant moving from a low wage economy to a high wage economy... Don't be tempted by the siren song of temporary worker programs. If they involve movement from poor countries to rich countries, they universally prove to be more permanent than temporary, and very difficult to turn off once turned on.

- **“Ending chain migration.”** Chain migration in the broadest sense is one of the main drivers of immigration. People come to the UK because their relatives, friends and fellow nationals have preceded them. However, it emerges that the Government only proposes to address one aspect of this process. At present those who have settled here on a family reunion basis can in turn sponsor further family members. The Government’s proposals would merely delay this right until they have been here five years or have obtained British citizenship. In any case, exploitation of the right to bring in a spouse was only re-opened by the abolition of the ‘primary purpose rule’ in 1997. This has led to a doubling of the number of spouses brought in from the Indian sub-continent. It would be far better to introduce rules similar to those in Denmark that would also protect British Asian women from forced marriages.
- **“Tightening up on overstayers.”** The proposals to use bonds, biometrics for visas and residence permits are sensible and should help to cut down on abuses. Regrettably the Government does not propose to reinstate comprehensive exit monitoring.

⁹ Congressional testimony of Dr Michael S Teitelbaum, 27 September 1989.

CHAPTER THREE

DOES IMMIGRATION ENRICH US ECONOMICALLY?

THE GOVERNMENT IS RIGHT to reject the popular fallacy that most immigrants come here to claim our benefits and are then a drain on the economy. The vast majority want to work and better the lot of themselves and their families. As long as they are able to work and do not get embroiled in the benefits system, they ought not to be a burden on the economy.

But does immigration positively improve the economic wellbeing of the resident population? The Government claims that it is economically essential and brings substantial economic benefits. That claim is often accepted uncritically. Yet most serious academic attempts to identify such benefits have found that at best they are marginal. For example:

There is not a compelling long-term case for increased immigration purely in terms of economic benefits.¹⁰

The arguments that there are large overall economic benefits to the existing population from immigration are questionable.¹¹

The broad consensus... is that high levels of immigration will increase aggregate variables such as labour force, investment and real gross income, but cause... real wages to decline.¹²

¹⁰ Mark Kleinman, *The Politics of Migration*, IPPR, 2003.

¹¹ Martin Wolf, *Financial Times*, 28 January 2005.

¹² The 1985 Canadian Royal Commission on the Economic Union and Development Prospects.

TOO MUCH OF A GOOD THING?

In general, migration increases the supply of labour: this is likely, in theory, to reduce wages for workers competing with migrants, and increase the returns to capital and other factors complementary to migrant labour.¹³

The economic benefits from immigration are small... not a single academic body has concluded that they are higher – and some studies have concluded that they are lower.¹⁴

... immigration creates a net loss to US natives of nearly \$70 billion annually.¹⁵

Despite this the Government argues that immigration brings substantial benefits: by boosting economic growth; by filling labour and skill shortages; by staffing public services; by paying more in taxation than the cost of the services and benefits they receive; and by offsetting the effect of an ageing population on our pension crisis.

Growth

According to the Treasury, our economic growth rate would be almost 0.5% lower for the next two years if net migration ceased. Lower growth means less individual and family prosperity.

Tony Blair, speech to the CBI, 27 April 2004.

Tony Blair confuses growth in total national income (which is what the economic growth rate measures) with growth in per capita incomes of the existing population (which measures individual and family prosperity). Immigration increases the size

¹³ “Migration: an economic and social analysis,” Occasional Paper No 67, Home Office 2001.

¹⁴ Professor G Borjas, *Heavens Door: Immigration Policy and the American Economy*, Princeton University Press, 2001.

¹⁵ Professors D Davis and D Weinstein, *US Technological Superiority and the Losses from Migration*, Center for Immigration Studies, National Bureau of Economic Research Working Paper 8971, February 2005.

DOES IMMIGRATION ENRICH US?

of the labour force and therefore the size of the total national income. But that does not mean that incomes per head of the existing population will rise any faster. Indeed, the Treasury¹⁶ simply assumes that net migration will add 0.4% p.a. (which Mr Blair rounds up to ‘almost 0.5%’) to both the labour force and national output, implying *no* increase in per capita incomes and therefore *no* impact on “individual and family prosperity”.

The Chancellor also attributed the success of the US economy (relative to that of the EU) to the large inflow of immigrants into the US.¹⁷ It is true that the US economy has grown faster than the EU because immigration has increased the US labour force; but growth of productivity per worker has risen at almost exactly the same rate – 2% p.a. – on both sides of the Atlantic. Moreover, since the flow of immigration into the US has increased, the rate of growth in income per worker appears to have slowed down. Likewise, since the Government began increasing immigration, the rate of growth in productivity per person in the UK has slowed.¹⁸

Economic theory suggests that rather than boosting incomes per head, an increase in the supply of labour will normally reduce labour’s share of total national income, while increasing the returns to capital and property.

The 1985 Canadian Royal Commission on the Economic Union and Development Prospects noted that: “The broad consensus ... is that high levels of immigration will increase aggregate variables such as labour force, investment and real gross income, but cause ... real wages to decline.”

The main factor that might offset this effect would be where there are increasing returns to scale. In general there is no correlation between either the size or the rate of growth of a

¹⁶ HM Treasury, *Trend Growth: Recent Developments and Prospects*, April 2002.

¹⁷ Gordon Brown Budget speech, April 2003.

¹⁸ Bank of England Structural Economic Analysis Division, “Measuring Total Factor Productivity for the United Kingdom”, *Bank of England Quarterly Bulletin*, Spring 2004.

TOO MUCH OF A GOOD THING?

country's population and the level of income per head. Many of the countries with the highest incomes per head have smallish populations – like, Singapore, Switzerland and Norway.

Economies of scale may have existed in sparsely populated countries like Australia, Canada and the US when they needed a certain size of population to justify the infrastructure necessary to develop their resources. However, the reverse is the case in a densely populated country like Britain. An increase in population here generates diseconomies of congestion and pressure on scarce land and housing.

Arguably there may be economies of scale in certain industries. The City of London, in particular, undoubtedly benefits from its unrivalled aggregation of related financial businesses. To achieve that it needed to import a large number of talented people who could not realistically have been replaced in the numbers required from the pool of domestic British talent. But it is not easy to think of examples of other industries where scale is constrained by the size of the UK labour force which is, after all, 27 million strong.

Shortages

There are half a million vacancies in our job market and our strong and growing economy needs migration to fill these vacancies.

Tony Blair, Speech to CBI, 27 April 2004.

There is clearly unsatisfied demand at all skill levels in the labour market. ... skill shortages and unfilled vacancies manifest themselves at all skill levels.

Home Office briefing.¹⁹

The idea that we need to import labour to fill shortages is so plausible that it is almost never questioned. Yet there are strong reasons why it should be questioned: there is no symptom of a

¹⁹ *Migration: an economic and social analysis*, Home Office Occasional Paper No 67.

DOES IMMIGRATION ENRICH US?

labour shortage; immigration does not in practice seem to reduce the level of vacancies; the argument that immigrants will fill our vacancies is based on the same economic fallacy as the racist claims that immigrants take our jobs; and shortages in specific sectors can only persist if pay is held down.

- **No symptom of a shortage.** In any economy there are always some vacancies waiting to be filled. If the current level of half a million vacancies were too high and there were a general labour shortage – as the PM and the Home Office researchers claim – the symptom, as of any shortage, would be rising pay. Yet pay inflation has rarely been lower since the war.
- **Immigration does not end shortages.** The idea that importing more people would remove a general labour shortage is plausible – but it patently does not work in practice. There were half a million vacancies when Tony Blair began using that figure to justify high immigration. Since then there has been a net inflow of over half a million people – yet there are still half a million vacancies. London in particular, which is supposed to have had a labour shortage for decades, has not seen that shortage diminish even though over a quarter of the population came here from abroad. Precisely the same phenomenon is observable in other places experiencing mass immigration – from California and Miami to West Germany and Australia. Is this just an extraordinary coincidence or is there something wrong with the theory that immigration will mop up excess demand for labour?
- **Based on a fallacy.** There is a perfectly simple reason why immigration creates as many new jobs as it fills: immigrants are not only producers, they are also consumers. The new workers not only produce goods and services, they also consume goods and services. And those goods and services they consume will require yet more workers to supply them.

TOO MUCH OF A GOOD THING?

The value of what immigrant workers produce automatically equals the extra demand they generate for goods and services which in turn generates demand for a similar number of extra workers. So if there are unfilled vacancies at the start there will still be a similar number of unfilled vacancies – though probably in different occupations – once the migrants have joined the workforce.

- **The same fallacy as extremists use.** The Government should not be surprised by this phenomenon. They rightly reject the demagogic argument that immigration ‘takes away jobs from British workers’. Yet the assertion that immigrants are needed to fill vacancies, and the fear that immigration will cause unemployment by taking jobs, are remarkably similar. Both claims are fallacious. Indeed they rest on the same fallacy – known to economists as ‘the lump of labour fallacy’; the idea that there is a fixed amount of work to be done. The Government assumes there is a given number of jobs to be done, which exceeds the resident labour force; so we need to encourage immigration. Some opponents of immigration assume there is a given number of jobs, which is barely sufficient to employ the resident workforce; so we must stop immigration.²⁰ Both are wrong.
- **The amount of work that needs doing is potentially infinite.** A well-working labour market with flexible wages will generate as many jobs as there are people willing and able to do them. Additional workers will not divert demand away from resident workers because ‘supply creates its own demand’. The wages and profits which the new employees earn will be spent or lent generating extra demand equal to the extra supply which they

²⁰ For simplicity, this assumes monetary policy accommodates the increase in supply – which will normally happen more or less automatically and/or with the support of the monetary authorities.

DOES IMMIGRATION ENRICH US?

provide. So immigrants do not take away jobs from the resident population. Nor do they reduce the total number of job vacancies.

- **Shortages only persist if pay is not flexible.** In a free and flexible market the very idea of a ‘shortage’ is problematic. As Dr Michael Teitelbaum, who became Vice-Chairman of the US Commission on Immigration Reform, told Congress:

...the very phrase itself ‘labour shortage’ provokes puzzlement or amazement among most informed analysts of... labour markets.²¹

His colleague Eric Weinstein later added:

Long term labor shortages do not happen naturally in market economies. That is not to say they don’t exist. They are created when employers or Government agencies tamper with the natural functioning of the wage mechanism.²²

By definition, in a free market, relative wages adjust to the market clearing levels – the levels which bring supply and demand for all types of labour into balance. So shortages cannot persist. The idea of a *general* labour shortage is particularly alien to economists. It would mean that monetary demand had outstripped the growth of output. The solution would be to rein back monetary demand in line with the supply of labour.

As for shortages of particular skills, they can only persist if relative pay rates are not able to adjust to bring supply and demand for those skills into balance. Before importing immigrants to meet specific shortages, two questions should be asked. First, why is pay for that occupation unable to adjust to a level at which demand is equal to the supply of suitable and willing resident

²¹ Congressional testimony of Dr Michael S Teitelbaum 27 September 1989.

²² Eric Weinstein, *How and why Government, Universities and Industry Create Domestic Labor Shortages of Scientists and High-Tech Workers*, National Bureau of Economic Research.

TOO MUCH OF A GOOD THING?

workers? Second, would it be better if relative pay were allowed to adjust to bring domestic demand and supply of that skill into balance?

Pay rates may be rigid or slow to adjust because competition is absent or prevented from working. But even in competitive markets pay may be held down below the level needed to attract sufficient home grown employees to match demand if employers are allowed to recruit immigrants from cheaper labour markets abroad. As Dr Teitelbaum warned Congress:

[To attract native] workers, the employer may have to increase his wage offer... So when you hear an employer saying he needs immigrants to fill a 'labor shortage', remember what you are hearing: a cry... to allow the employer to avoid the normal functioning of the labor market.²³

Naturally, employers prefer importing cheap foreign labour to bidding up pay at home. The better off prefer employing cheap nannies, builders and cleaners from abroad. They also benefit indirectly from restaurants and hotels employing cheap waiters and catering staff. Conversely, the British employees in these fields suffer from having their wages depressed.

Filling jobs British workers shun

... some [of these vacancies] are for unskilled jobs which people living here are not prepared to do.

Tony Blair, Speech to CBI, 27 April 2004.

This is an excuse for importing cheap unskilled labour. There is no shortage even for supposedly menial tasks if pay is sufficient to compensate for the unpleasantness. For example, there is no shortage of dustmen. Britain has a relatively high proportion of unskilled and semi-skilled workers – including many of the two

²³ Congressional testimony of Dr Michael S Teitelbaum 1990.

DOES IMMIGRATION ENRICH US?

million or more discouraged workers²⁴ – who might be attracted back into employment if pay was not depressed by an influx of low cost workers.

Professor Richard Layard – who advises the Government on labour markets and devised their New Deal policy, wrote to the *Financial Times*:

‘Europe needs immigrants skilled and unskilled’, you say. This may now be the conventional wisdom, but it glosses over the conflicts of interests between different groups of Europeans.

For European employers and skilled workers, unskilled immigration brings real advantages. It provides labour for their restaurants, building sites and car parks and helps keep these services cheap by keeping down the wages of those who work there.

But for unskilled Europeans, it is a mixed blessing. It depresses their wages and may affect their job opportunities.”

It is amazing that a Labour Government should be prepared to use the reserve army of third world labour to depress the living standard of the lowest paid British workers to provide cheaper services for the better off.

When Tony Blair says we need to import labour to do jobs which British workers are no longer willing to do, he is implicitly assuming that we will import a permanent class of helots – people who will always be willing to undertake work too menial for resident workers to undertake. Catering workers will remain forever catering workers. Nurses will remain forever nurses, and so on. But that neither will nor should happen. The shortage of resident labour in a sector exists only because there are more attractive alternatives available for resident workers. British nurses do not stay in nursing or return to it after bringing up a family

²⁴ J Fuchs and D Schmidt, *The Hidden Labour Force in the UK*, Bundesanstalt für Arbeit, 2000.

TOO MUCH OF A GOOD THING?

because they discover that it is more attractive to work as a secretary or whatever. Once settled here, immigrants have the same right to change jobs as resident workers and will be at least as upwardly mobile. So they will need to be replaced by a continuous stream of fresh immigrants.

Reliance on immigrant labour to fill shortages is likely to ensure that the shortage becomes permanent. As a report published by the UN International Labour Organisation (ILO) explained:²⁵

What may begin as a simple temporary 'spot shortage' of trained native workers, can be made considerably more permanent by attempting a quick fix from migrant labor. Any program which imports migrants into a sector whose employers are complaining of insufficient trained natives, can be expected to exacerbate (rather than alleviate) its native shortage. Rather than raising incentives to entice new workers to seek training to fill the empty slots, visas are likely to be used to avoid the needed market response.

Public services would collapse without immigrant workers

...a quarter of all health professionals are overseas born... 23% of staff in our HE institutions are non-UK nationals... Our public services would be close to collapse without their contribution.

Tony Blair, CBI speech, 27 April 2004.

In a market economy we are all dependent on each other. If a quarter of the staff of any institution were suddenly removed, it would probably collapse. No one is proposing to remove the foreign born staff from the public services. So Tony Blair is implying that if those foreign born staff had not been allowed to come to this country, the NHS would be short of a quarter of the staff it needs and would collapse. If, instead, resident people had taken all those NHS jobs, that would have left gaps in other parts of the economy.

²⁵ IMP 40. *Migration for the Benefit of All*, Eric Weinstein, ILO, Geneva 2001.

DOES IMMIGRATION ENRICH US?

This once again ignores the fact that the immigrant workers employed in the NHS are also consumers. They not only provide health services to the rest of the nation, they also consume goods and services that have to be produced by other people. The value of the manpower immigrant workers provide to the NHS is exactly equal to the value of the person-hours devoted elsewhere in the economy to satisfying their needs for food, clothing, entertainment, housing and so on. So, if those immigrant workers had not come to work in the NHS, then all the resources currently supplying their needs would have been available, directly or indirectly, to work in the NHS.

It is certainly possible to staff a health service with indigenous employees. Most other EU countries have done so. That leaves the question whether Britain would have had to pay far higher salaries to persuade sufficient resident workers to take jobs in the NHS. Put crudely, are we getting health and other public services on the cheap by exploiting labour from developing countries?

Public services would cost us much more

**In health and education, wages are constrained by policy...
Migration in these sectors, therefore, benefits the public sector – and
hence the general public, as taxpayers ...**

Home Office briefing.²⁶

This is an unusually frank admission that migration is used to keep pay low in health and education. People are normally reluctant to boast about using cheap labour. But it is implicit in the arguments deployed by Tony Blair. How satisfactory for the liberal intelligentsia to be able to sneer at the racism of the British working class while enjoying the benefits of cheap Polish builders and Filipino nurses.

²⁶ *Migration: an economic and social analysis*, Home Office Occasional Paper No 67.

TOO MUCH OF A GOOD THING?

When confronted with the argument that the benefits of immigration rely on exploiting cheap labour, which also drives down the pay of the least skilled resident workers (not least British ethnic minority workers), proponents of immigration deny that this happens. They point out that most econometric studies have found little or no effect on the wages of residents. But the absence of proof is not proof of absence. Recent studies – notably those that allow for differences between different gradations of skill and expertise in the resident labour force – have found that immigration depresses pay, particularly of the least skilled and worst educated.²⁷

Some of those who claim that economic studies prove that immigration does not depress pay nonetheless argue that if we turn off the immigration tap, we will have to pay a lot more for our nurses and teachers, not to mention our builders and nannies.

One thing is clear. Defenders of immigration cannot have it both ways. Either immigration depresses pay in sectors like health care; or it does not depress pay in which case we are not getting health and other services more cheaply than if we relied on resident workers.

It is probable that an inflow of migrant workers can depress pay rates, but usually not by a large amount. That means that if less immigration was allowed in future and if there was a greater reliance on resident workers to staff the NHS, schools and other public services, salaries would only have to rise by a comparatively modest amount relative to other occupations to attract sufficient resident recruits.

Moreover, although using immigrant labour can reduce employers' direct payroll bills, it may simultaneously impose other burdens on the taxpayer, and social costs on the community. Most

²⁷ G J Borjas, "The Labour Demand Curve is downward sloping: re-examining the impact of immigration on the Labor Market", *The Quarterly Journal of Economics*, November 2003.

DOES IMMIGRATION ENRICH US?

attempts to buck the market tend to end up costing as much or even more than they were intended to save. In the case of the public services, paying nurses and teachers below the British going rate ends up with the taxpayer having to pay a high premium for agency staff. The use of agency staff adds over 5% to the total NHS pay bill before any allowance is made for their lack of familiarity and consequent lower productivity.

Because pay is depressed, public sector employees (both immigrant and resident workers) are often unable to afford housing, particularly in the South East to which most migrants come. The public sector will often have to bear the cost: either by providing tied housing (as the NHS does for nurses) or by hidden subsidies to make houses affordable for key workers, or via housing benefit and other in-work benefits. The whole community will pay the environmental cost of providing housing land for a larger population.

Taking these factors into account, it is far from certain that less reliance on immigrant labour in the public services would increase the overall cost to the taxpayer and the community as a whole.

Immigrants pay more tax than the benefits and public services they consume

Migrants in the UK contributed... a net fiscal balance of approximately £2.5 billion... This is equivalent to around 1p on the basic rate of income tax.

Home Office briefing.²⁸

Tony Blair draws on this study to claim that migrants reduce the burden of taxation on British taxpayers. However, the authors of this study emphasised that their conclusion was extremely tentative. Nonetheless, the Prime Minister uses it as an incontrovertible truth.

²⁸ *The migrant population in the UK: fiscal effects*, Home Office Occasional Paper No 77.

TOO MUCH OF A GOOD THING?

The figures are generally discounted for two reasons. First, they refer to a year when the public finances were in surplus. So the nation as a whole, and not just immigrants, were paying more taxes than the cost of benefits and services they were using. That accounted for about half the net contribution the immigrants were making. Second, the study includes all the revenues from corporation tax, oil revenues and other non-personal taxes. It attributes them to immigrants and natives in proportion to their share of population. Even if that ratio were correct, this ignores the fact that a large proportion of corporation tax is attributable neither to immigrants nor to natives since it is paid by foreign-owned companies. If the foreign-owned portion of corporation tax revenues were removed from the calculation, the remaining fiscal contribution of immigrants would largely disappear. Of course, it would also reduce the fiscal contribution of natives.

Far more important than either of these factors is the fact that, like most studies of this kind, it entirely excluded the pension liabilities accruing to the immigrant workers. Relatively few of them are yet retired and drawing state pensions or pension credits. But those currently of working age will be entitled to do so when they retire. Expenditure on the elderly is by far the largest element of public expenditure yet no allowance has been made for the future costs that immigrants currently of working age will impose on taxpayers.

If that had been taken into account the Home Office study would certainly have shown a net negative fiscal contribution. It would then be quoted by opponents of immigration confirming their beliefs that 'immigrants are burden on the rest of us'.

In fact it would be absurd to base policy on such aggregate studies. They bundle together everyone who comes here to work even though that covers a wide range of people. It needs no study to show that high earning immigrants, like high earning residents, pay more in taxes than they 'cost' in benefits and services over

DOES IMMIGRATION ENRICH US?

their lifetime. For low earners the reverse is the case. The aggregate figure merely reflect the mix at any time.

A Swedish study (which is far more accurate than the British one since it was based on access to the actual tax records of a sample of immigrants) showed that the net contribution of immigrants has moved from slightly positive in the 1970s to a negative, amounting to 2% of GDP by 1994.²⁹ This is simply because in the earlier periods a higher proportion of immigrants were relatively high earners from neighbouring countries whereas recent inflows have been dominated by low earning asylum seekers.

The logic of Mr Blair's argument is that we should only allow in immigrants who are likely to be net taxpayers over their lifetimes. This implies that immigrants are essentially a fiscal milch cow. As a very thoughtful study³⁰ of the morality of immigration policy from a Christian perspective remarks, to treat people as a commodity is morally dubious.

Paying our pensions

If we are to have the workforce to pay the pensions of future generations... the UK needs skilled migrants.

Sir Digby Jones, Director General of the CBI, 27 April 2004.

Immigrants also grow old. Those arriving now will retire when the support ratio is far worse, thereby exacerbating the problem rather than solving it.

The UN calculated that for Britain "keeping the potential support ratio [working age people to those of pensionable age] constant would demand more than one million immigrants

²⁹ J Ekberg, "Immigration and the public sector: income effects for the native population of Sweden", *Population Economics*, Springer Verlag, 1994.

³⁰ Nick Spencer, *Asylum and Immigration: A Christian Perspective on a Polarised Debate*, Jubilee Centre and Paternoster Press, 2004.

TOO MUCH OF A GOOD THING?

annually”.³¹ As the Government’s pension Tsar – Adair Turner – commented:³²

You only have to look at these figures to realise that this scale of immigration is undesirable and impossible. Fortunately, it is also unnecessary.

Encouraging a higher proportion of existing workers to work to the current pension age and enabling more to work beyond that would be far more effective since it simultaneously increases the workforce and diminishes the pension burden.

³¹ *Replacement Migration: Is it a solution to declining and ageing population?* UN Population Division, 2000.

³² A Turner, *Demographics, Economics and Social Choice*, London School of Economics, 6 November 2003.

CHAPTER FOUR

THE TRUE ECONOMIC BENEFITS OF IMMIGRATION

SOME IMMIGRATION UNDOUBTEDLY does enrich us economically and culturally. But beyond a certain point the benefits it brings do not increase in proportion to the numbers who come here, whereas the difficulties (notably pressure on housing and land) do. So it is sensible to set some limit on the total allowed to live, work and settle here.

Although the economic arguments Labour uses to justify large scale immigration are fallacious that does not mean there are no benefits. It is essential to analyse correctly the nature of the genuine benefits that immigration can bring so that they can be maximised.

The Prime Minister's belief that we have labour shortages that only immigrant labour can fill is bad economics and bad policy. In general it is best to encourage domestic workers to acquire the relevant skills by letting pay adjust until the incentive to acquire the skill is adequate. But there are some circumstances and certain types of skill which it is sensible to recruit from overseas, for example:

- **Company specific skills or experience.** International companies may want to bring in, with a minimum of inconvenience, employees with company specific skills or experience. For example, a company setting up, expanding or changing its operations in Britain may want to bring over staff who are familiar with the procedures used by that company elsewhere. By definition, such experience cannot be hired in the market place. Invariably such employees return home.

TOO MUCH OF A GOOD THING?

- **Temporary shortages** may need to be filled from abroad when it will take time for sufficient domestic workers to acquire the necessary qualifications or experience. However, as emphasised earlier, there is a danger that a temporary shortage will become permanent if migrant labour is allowed to depress the differentials necessary to persuade resident workers to acquire that skill.
- **Star performers.** In some businesses success depends on having the top individuals in the world in your team. Premier league football is an obvious example where clubs need to be able to recruit the star performers world wide. The same may be true in certain aspects of fields such as finance, law and medicine. By definition, the number of people involved under this heading will be limited but their economic impact may be significant.
- **Entrepreneurs.** People intending to invest and set up new businesses should be welcomed to Britain because they create additional or more rewarding jobs for existing residents. It used to be a requirement that potential businesses should employ people in addition to the entrepreneur – i.e. that he or she could not be self-employed or a sole trader. Unfortunately, the accession treaties with Bulgaria and Romania and the association agreement with Turkey allow business people to enter without this condition. In addition, people who come here for other purposes can switch to being self-employed sole traders. The Sutton inquiry discovered that “a typical case could be a Romanian student coming to the end of their course of study in this country and planning to set up in business as a cleaner.” Many thousands of similar applications were granted. Unfortunately, these treaties can only be altered by consent. That should be sought. In future EU treaties, only entrepreneurs intending to establish businesses which will add to domestic employment should be allowed entry. Meanwhile, existing terms should be enforced strictly.

THE TRUE ECONOMIC BENEFITS OF IMMIGRATION

- **Economies of scale.** Economists recognise that migration can be beneficial where an industry experiences economies of scale which cannot be met from the existing labour force. The City of London is an example where potential economies of scale and aggregation required skills and experience not all of which could conceivably be filled entirely from the national workforce. Few other industries where there are economies of scale are so large relative to the total economy that they cannot meet the vast majority of their needs from the local labour force.

CHAPTER FIVE

HOUSING AND LAND

ASK THE PUBLIC WHY they believe that immigration should be controlled and they often reply: “there is no room; we have a housing shortage and not enough countryside left to build more.”

It is certainly true that England is one of the most densely populated countries in the world. It has even more people per square mile than Benelux, four times that of France, and 12 times that of the US. The South East of England including London has twice the population density of the Netherlands.

The current debate about housing targets, particularly in southern England, has raised the profile of the housing issue. But what part does immigration play in the pressure on building land?

To listen to the Government one would conclude that it is irrelevant. The Deputy Prime Minister, John Prescott, has made 17 statements to Parliament about housing since 1997. He has progressively raised the target for house building in England between 2001 and 2021 from 3.0 million to 3.78 million. He has frequently emphasised the disparities between North and South, implying that internal migration is the main factor affecting demand for homes. Not once has he mentioned the impact of immigration from abroad.

His Housing Minister emphasised a different factor:

Much of the need for new homes comes from increased housing need within the region. People are living longer, more people are living alone and young people leave home earlier. Approximately 60% of the homes proposed by EERA are to meet this household formation from

HOUSING AND LAND

the East of England's current population. There are also pressures for more housing in the East of England due to the general strength of the economy and because the demand for housing continues to outstrip supply, leading to rising house prices.³³

Again no mention of international migration. What are the facts? Why are such high housing targets being set and then repeatedly increased?

Smaller Households

The trend towards fewer people per household is certainly a major factor. Indeed, in recent decades it has been *the* major factor accounting for the need for extra homes. It is the result of parents having fewer children, young people leaving home earlier, parents living longer after their children have left the nest, couples splitting up, and elderly people living alone after their spouses have died. As a result, the average number of people per household has steadily declined from 2.67 in 1981 to 2.34 in 2001. That may sound a small change but it means that, *even if the population had remained static*, the number of households and therefore the number of dwellings they required would have increased by 14% over 20 years. The trend towards smaller households is projected to continue but at a somewhat slower pace in future – to 2.15 in 2021 – requiring 9% more dwellings over 20 years. The trend is almost bound to slow further since household size cannot be less than one and single person households are already a significant proportion of the total.

The need for extra houses to accommodate the same number of people in smaller households is qualitatively different from building extra homes for an expanding population. Smaller households, on average, require *smaller* homes. More important, if the same number of people occupy more dwellings they do not require more infrastructure. They do not need any more schools, hospitals, shops and so on. Nor do they use more water or create more waste. Nor

³³ Letter from Nick Raynsford MP to Peter Lilley MP, 27 January 2005.

TOO MUCH OF A GOOD THING?

should their demand for transport, roads, gas or electricity increase remotely in proportion to the number of households.

By contrast, building more homes to house a growing population does require more infrastructure as well. That is true even if the population grows in one part of the country simply because of internal movement from elsewhere in the UK.

The North/South Drift

The Deputy Prime Minister's statements to Parliament implied that the growth in demand for housing in southern England is largely the result of internal migration from the rest of the UK. Most commentators take it for granted that the North/South flow is the main reason for extra house building in the South East. In fact it is the *least* important factor of all. Only 9% of the population growth in the South of England in the 1990s came from a net inflow of people from the rest of the UK.³⁴

Births less Deaths

A somewhat larger source of population growth is the excess of births over deaths. The British birth rate is well below the replacement rate. However, while the increase in life expectancy is still working its way through there is still a modest excess of births over deaths over the UK as a whole. That excess is heavily concentrated in London.

Natural population growth [i.e. births minus deaths] in London accounted for 70% of the total natural growth in the UK in 2001, even though London was home to only 12% of the population.³⁵

³⁴ R Bate, R Best and A Holmans, *On the move – The housing consequences of migration*, Joseph Rowntree Foundation, February 2000. Robert Holmans and colleagues are accepted by the Government as the leading authorities on housing demand.

³⁵ National Statistics www.statistics.gov.uk/cci/nugget.asp?ID=384

HOUSING AND LAND

This is because London's population is skewed heavily towards those of childbearing age – largely the consequence of immigration. It is not that those of immigrant origin have substantially larger families than the rest of the population. Their family size tends to converge on the national average. But most immigrants tend to be young.

Estimated composition of population change in South and London 1991-98

(thousands)	South exc. London	London	South inc. London	%
Births minus deaths	+183	+273	+456	44%
Net migration from rest of UK	+61	+33	+94	9%
Migration from London	+370	-370	-	0%
Net international migration*	+137	+335	+472	46%
Other changes	-16	+26	+10	1%
Total population change	+735	+297	+1032	100%

Note: South includes East, South East, South West and London

* Residual

Source: Bate, Best and Holmans, op. cit.

International Migration

The largest cause of population growth, even in the period of the 1990s analysed by Holmans, was the net inflow of immigrants. As the table above makes clear, London attracts a disproportionate number of immigrants. In that period there was a net inflow from abroad into London of 40,000 a year. A similar number of Londoners moved out largely into the surrounding Home Counties. Currently the numbers flowing into London from abroad and out of London into neighbouring counties is probably twice that of the 1990s.

The major impact of immigration on housing pressures in the Home Counties is therefore indirect. This enables Ministers and officials to deny that immigration plays a major *direct* role in the

TOO MUCH OF A GOOD THING?

housing pressures in neighbouring regions. That is mere word play. London itself cannot conceivably provide additional housing for both its existing population and a net inflow now approaching 100,000 a year.

Those who claim that immigration plays no part in the housing crisis in southern England are reluctant to admit this fact. Their immediate reaction³⁶ is to allege that anyone who says the outflow from London is the result of immigrants moving in is saying that 'people are moving out of London because they cannot abide living among immigrants'. That is nonsense. Those moving out are Londoners of all ethnicities. As incomers buy, rent or are allocated houses that would otherwise have been occupied by Londoners (of all races) prices are driven up. So Londoners look further a field. This in turn drives up house prices in the Home Counties and beyond.

Holmans and his colleagues were in no doubt about the importance of net immigration:

The starting point of an assessment of what might be done to reduce the pressure of... housing demand and need in the south of England ... is the rapid growth of the total national population ... Without a large fall in net international migration, the situation in the 1990s ... will run on into the future.

Rather than there being 'a large fall in net international migration', the net inflow has doubled since the 1990s.

Until recently, Government housing targets were based on 1996 population projections that assumed a net inflow of 67,000 people annually for the whole UK. More up to date population projections assume a net inflow of 130,000. This is double the old figure though still lower than the average recorded legal net immigration of 157,000 over the last six years. As a result, the latest official projections show Britain's population growing by 6.1 million people

³⁶ See for example, *St Albans Observer*, 13 May 2004.

HOUSING AND LAND

by 2031 and that 5.2 million of this (84%) is due to the projected level of net immigration (130,000 p.a.).³⁷

In the light of this projection a Minister, Lord Rooker, has finally admitted that about one third of the projected number of new households over the next 20 years will be due to net immigration into this country.

It is estimated that, in the 2002-based interim household projections for England, about 59,000 additional households per year are attributable to net international migration out of a total of 189,000 additional households per year between 2001 and 2021.³⁸

This is a highly significant figure. The Government has set a target of building at least 60% of new homes on brownfield sites which means that up to 40% of homes will have to be built on greenfield sites. But for the third of new households resulting from net migration, the need to build on green fields, let alone Green Belt, would be much diminished.

That is particularly true for southern England. Immigration is overwhelmingly concentrated in London resulting in an outflow to southern England. Ministers have refused to give a full breakdown of projected household formation on a regional basis. However, figures they have given³⁹ indicate that nearly half of all new households projected in southern England over the next 20 years will be due to net immigration from abroad.

³⁷ Government Actuary's Department, 30 September 2004.

³⁸ House of Lords, 8 December 2004.

³⁹ Letter from the Minister for Housing and Planning at the ODPM, Keith Hill MP, to Peter Lilley MP, 4 October 2004.

CHAPTER SIX

RECOMMENDATIONS

FOR THE ECONOMY, immigration acts as a lubricant, not a fuel. Without lubrication, a car will suffer severe damage. But once it has enough, adding more does not make it go better – indeed it may cause problems. Likewise, stopping all immigration would damage the economy. But beyond a certain point more immigration will not make it grow better.

Unfortunately, the Government mistakenly believes that immigration is a fuel which makes the economy grow faster and has duly put its foot on the accelerator. If it believes, as its rhetoric implies, that the economic benefits of immigration are proportionate to the number of immigrants, it should remove openly (rather than by stealth) the remaining controls and confront the issues for housing, land use and pay relativities. Alternatively it should spell out any non-economic reasons for retaining restrictions on immigration.

Although the benefits of immigration are not proportionate to the number of immigrants, as the Government appears to believe, the costs – particularly pressure on housing and land – are.

The Conservative proposal: the right direction, but not far enough

The Conservative proposal to set an Australian style annual limit is sensible. However, no indication has been given of what that target might be.

Current inflows are huge. There is therefore ample scope for reducing the net inflow whilst still allowing a high level of gross

RECOMMENDATIONS

immigration. In 2003, the estimated number of people (including returning Britons) entering to stay for a year or more was 513,000 whereas some 362,000 people left to live abroad for a year or more, giving a net inflow of 151,000. Even if the aim were to secure a balance – no net inflow – to end the pressure imposed by net immigration on housing and land, the ceiling on immigration could still be set at nearly 360,000 people a year in all categories. That leaves plenty of room to accommodate our humanitarian obligations given that the peak number of asylum seekers granted asylum or leave to remain was 42,000.

There is likely to be a net inflow from the new EU member states until their living standards begin to catch up with ours. As the Government surrendered the right to restrict this movement, we must accept it. Meanwhile the aim should be to bring non-EU migration into balance, with particular restraint on forms of immigration which tend to result in permanent settlement.

But Conservative policy should go further than promising a limit in two respects.

First, it should spell out the categories of entrant most likely to make a genuine economic contribution – notably, but not exclusively, the categories explained in Chapter 5: employees with company specific skills, star performers, entrepreneurs, investors, workers to meet *temporary* shortages and where an industry has economies of scale which it is constrained from achieving because of the domestic pool of talent is too small. The visa scheme can then be tailored to restrict economic immigration to those categories.

Second, it should harness market forces to limit demand and to ensure that the benefits are secured by the community as a whole. Relying purely on bureaucratic procedures to ration immigration is bound to create distortions in the labour market. Employers will continue to try to exploit the system simply to bring in cheap labour. That undercuts the pay of domestic workers in those occupations and reduces the incentive for the resident population to acquire the imported skills. Many employers like to import workers

TOO MUCH OF A GOOD THING?

on work permits, not just because they are cheaper, but because they are more beholden to the employer. They are in effect indentured labour. Most workers on a work permit assume they must stay with their sponsoring employer until they have been here four years and can apply for indefinite leave to remain. (Moving to another employer who is willing to reapply for a work permit is possible but not easy). Tying workers to an individual employer risks injustice to the employee. It is also economically damaging since the employer has less incentive to motivate the employee and the employee is precluded from moving to another job where he or she may be more productive.

These problems can all be diminished if employers are charged a fee representing not just the administrative cost of the work permit system but also the other social costs that expanding the population involves as well as the economic benefit of being able to import workers from abroad.⁴⁰ At present the maximum fee for an employer applying for a work permit is £153. This covers only the administrative costs. It compares with fees of £500 to £1,000 in Australia and the US. British agencies charge an additional £1,500 simply for helping companies obtain these permits. This is an indication of how valuable foreign workers can be to employers. American studies show that even though US employers, like those in the UK, are supposed to pay the prevailing wage to employees brought in on a skilled workers visa, in practice they pay on average 15% to 30% less than resident workers with identical experience and job description.⁴¹ So the value of work permits is substantial. It would be far more effective to charge an annual fee

⁴⁰ E. Weinstein, "Migration for the benefit of all: towards a new paradigm for migrant labor", UNILo Paper 43.

⁴¹ Dr Norman Matloff in evidence to Congress updated in "Debunking the Myth of a Desperate Software Labour Shortage" in 2002 cites seven studies reporting immigrants with H-1B visas earning between 15% and 33% below comparable Americans – see www.heather.cs.ucdavis.edu/itaa.real.html

RECOMMENDATIONS

of at least a four figure sum for the privilege of employing a work permit holder.

This would make employers think twice about bringing in foreign workers just because they are cheaper than British workers. It would stop domestic pay rates being artificially depressed. It would maintain the differentials necessary to give domestic residents the incentive to acquire scarce skills. And it would make it easier to stop employers treating migrant workers as indentured labour. They could be permitted to move to another employer if he (or they) were prepared to pay the annual fee for the remaining visa period. Work permit holders would then be more likely to be employed in a more productive way.

Martin Wolf of *The Financial Times* has suggested that work permits should be sold to employers by auction. Presumably the Government would set an annual quota of work permits it proposes to issue for the year and then hold monthly auctions. To be eligible to bid, employers would still need to satisfy the criteria set by the Government as would the candidate they wished to bring in.⁴²

Wolf outlined the following benefits of an auction:

- it would reduce the need for bureaucratic rationing procedures;
- the market would allocate the scarce resource of access to the UK labour market more efficiently than a bureaucracy can;
- businesses that genuinely need a specific applicant will be prepared to pay for the privilege of bringing them here;
- those who merely wanted access to cheap or indentured labour are likely to be outbid by firms with a compelling business case or at least will find that much of the benefit is siphoned off to the benefit of the public purse;

⁴² See M Wolf, *The Financial Times*, 25 February 2005.

TOO MUCH OF A GOOD THING?

- those who put the highest value on the right to work here are likely to be those who will gain most from it and therefore to be the most economically productive;
- the general public has a right to benefit from the value, which they collectively own, of access to a high productivity economy.

However, it would be wise to be cautious before adopting such a proposal. In theory, employers wishing to bring in cheap labour might outbid those needing to bring in staff with company specific skills, for example, to establish a new venture. Yet the latter would bring more benefit to the British economy than the former. It might nevertheless be useful to auction some permits on a trial basis to help establish the true market value of access to the UK market.

Whether the fee is set administratively or by auction it could in aggregate raise substantial sums. At present work permits are being issued at the rate of over 120,000 a year for up to four years each. Even at £2,000 per annum those are worth well over £1 billion. At present that value accrues primarily to employers. Of course, a tight limit on the number of work permits issued would reduce the yield unless the reduction in numbers is offset by increased scarcity raising their market value.

In fairness, a portion of these revenues could be used to compensate poorer countries for the cost of training the graduate staff whom we poach.

A SELECTION OF RECENT PUBLICATIONS

WELCOME TO THE ASYLUM

£10.00

Harriet Sergeant

The Government has lost control of immigration. Britain is now seen as the softest touch in Europe. Government failure corrupts and criminalises. And immigrants, who are dependent on criminal gangs to claim asylum, are the first to suffer. Can the next generation of refugees survive all the indignities of immigration – the gangs, the slave labour, enforced prostitution, a sink estate in Glasgow – and go on, as their predecessors did, to dazzle us with their achievements?

As Harriet Sergeant shows in her pamphlet for the Centre for Policy Studies, the shambolic way in which the Western world, and Britain in particular, is dealing with illegal immigration is encouraging criminal racketeering, prostitution and a black market in jobs – Philip Johnston, The Daily Telegraph

NO SYSTEM TO ABUSE

£7.50

Harriet Sergeant

The NHS is being exploited. It is being taken advantage of by people from other countries who have no entitlement to our system of free health care. This is not the fault of the individuals concerned, but a systemic failure at the heart of the National Health Service. The problems are threefold. Firstly, the system is open to abuse. To the determined health tourist, it is relatively easy to get free health care. Secondly, the number of people arriving in this country who have a legal entitlement to free health care is also growing, and putting increasing pressure on the NHS. Thirdly, the great majority of immigrants – whether legal or not – are coming from countries where diseases such as TB, Hepatitis B and HIV are all endemic. In the absence of any system of control, the Department of Health is unfair on NHS staff, on genuine asylum seekers and on the ordinary citizen.

“Harriet Sergeant’s explosive report on the abuse of the NHS by asylum seekers and illegal immigrants suggests Britain has taken leave of its senses” – Daily Mail

A SELECTION OF RECENT PUBLICATIONS

PEOPLE, NOT BUDGETS: valuing disabled children **£7.50**

Florence Heath and Richard Smith

Social services and the NHS are failing the 49,000 severely disabled children in this country. Care is fragmented, seemingly arbitrary and often inadequate. It is time to give disabled families more control over their own lives. To this end, the money spent by social services on 'assessment and commissioning' tasks (over a quarter of the total spent by social services on disabled children) should be paid directly to disabled families. In addition, the supply of respite and residential care homes should also be liberated by modernising the regulatory approach (through the adoption of the ISO 9000 quality control system) and by providing a more attractive fiscal regime. These proposals are consistent with the broad direction of public sector reform: they are based on giving greater choice to disabled families and greater freedom to suppliers of care to respond to that choice.

"An important and eloquent pamphlet" – Minette Marrin in *The Sunday Times*



A SUBSCRIPTION TO THE CENTRE FOR POLICY STUDIES

The Centre for Policy Studies runs an Associate Membership Scheme which is available at £100.00 per year (or £90.00 if paid by bankers' order). Associates receive all publications and (whenever possible) reduced fees for conferences held by the Centre.

For more details, please write or telephone to:

The Secretary

Centre for Policy Studies

57 Tufton Street, London SW1P 3QL

Tel: 020 7222 4488

Fax: 020 7222 4388

e-mail: mail@cps.org.uk

Website: www.cps.org.uk