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The socio-economic consequences of immigration: the United Kingdom as a test case.

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Abstract

Since 1997 a radically new immigration policy has been developed in the United Kingdom. Previous policy aims, focused on minimising settlement, have been abandoned. While controls remain in force and indeed measures to minimise asylum claiming have been strengthened, the emphasis now is on the benefits of migration for the UK economy and society. Large-scale immigration is now considered essential for the UK's economic well-being and a variety of measures have been introduced to increase inflows and meet the demands of employers and of the labour market generally.

In justification of this policy a number of strong claims have been made by the government and its supporters in pressure groups, academic life and the media concerning the economic benefits of and need for migration. These include substantial fiscal advantages, increased income per head, a ready supply of essential labour and improvements to the age-structure as a counter to population ageing and its associated costs. Fears that large-scale migration might damage the interests of the indigenous workforce by inducing lower wage settlements or higher unemployment are discounted. In addition it is claimed that immigration cannot be stopped anyway and that a broader intake of population from around the world is culturally advantageous and not, as previously claimed, harmful to social cohesion.

This paper will examine critically these claims, concentrating on their demographic and economic aspects. It will not consider directly the asylum issue, or the costs and benefits of migration for the sending countries or for the migrants themselves. These restrictions are partly for reasons of space and partly because the new policy of encouraging immigration has been justified mainly in terms of its material advantages for the receiving country. Because the very explicit claims now made in favour of greater migrant flows to the UK are similar to those advanced in support of more migration to other developed low-fertility countries, this examination of the UK case should have relevance beyond the boundaries of the United Kingdom itself.

Variant and target-oriented population projections are presented here to show that in the UK, as in other countries, immigration to preserve the current potential support ratio would require impossibly high levels of inflow which would need to be implausibly variable over time. The UK has a relatively benign demographic regime by most European standards. Without immigration its population is not projected to begin to decline for at least another two decades. With current levels of immigration, which are under-stated in official projections, the population is expected to increase by up to 7 million persons by 2031, over 90% of which will be a consequence, direct or indirect, of international migration. The adverse consequences of such a substantial increase, concentrated into the Southern half of the country, are discussed in terms of new housing demand, pressure on existing infrastructure and effects on the urban and rural environment. The future size of the population of working age is projected to increase for some time (partly, of course, because of the incorporation of immigration into the projection) and not to fall below the present level for over thirty years.

It is not controversial that some degree of two-way migration is normal between open societies participating in international trade. Academic studies disagree on the effects of immigration on the less skilled sections of the population. The only study explicitly devoted to the local UK employment situation in immigrant areas finds that these effects are small, but recent evidence from other countries suggests that they may be quite large, and negative, in those countries. Another study in the UK indicates that substantial immigration of unskilled workers can prevent unemployment declining in areas remote from immigrants settlement, by inhibiting internal migration. The UK, along with other European countries, has an excess of unskilled population, not a shortage, although much of it is unemployed or economically inactive. Data are presented to show that ethnic minorities in the UK, and foreign populations abroad, are already over-represented in those categories.

Overall the economic record of recent immigration to the UK, like that to other developed countries, is shown not to be very impressive. A body of evidence is presented that its effects are more often negative, partly because so much immigration is not primarily economic. The studies using UK and other data presented in this paper, on the fiscal contribution of immigrants, show that the estimated net fiscal contribution of immigrants depends substantially on the treatment of public goods and debt interest. It also depends on the allocation of fiscal adjustment across generations, on the age and skill composition of the immigrants and their descendants, the extent to which members of this group are gainfully employed, and on tax rates and the level of public expenditure. The net contribution of immigrants may be positive or negative depending on the method of estimation and the type of immigration – its diversity is persistently ignored in the present debate. In general, this contribution, however defined, is small in relation to GDP. The major exception concerns a small number of studies relating to countries, mostly in southern Europe, facing demographic collapse. If the burden of fiscal adjustment in these countries is born entirely by future generations, the estimated tax rate levied on future immigrants (and natives) is very high, and the fiscal contribution of such immigrants is therefore substantial. However, the practical relevance of such a finding is limited, since the required fiscal policy is inconsistent with the normal principles of taxation. With a

more realistic assumption about fiscal policy, these studies find that even in countries facing demographic collapse the potential contribution of immigration is small in relation to GDP.

From a policy point of view the fiscal contribution of the migrant population as a whole is not really of great significance. What matters is the contribution of particular types of immigrant. Asylum seekers, non-working spouses and many unskilled immigrants absorb more public expenditure than they contribute in taxes, whereas highly skilled or talented immigrants pay far more tax than they receive from the government. This is what really matters for policy-making. No-one is seriously advocating the complete ending of migration. The policy issues of the day are concerned with the absolute number and type of immigrants the UK, and other countries, should admit and how to maximise the contribution of immigrants once they arrive in the country.

Fiscal accountancy ignores important negative externalities on which at least some data are available. For example, the key Home Office study that came to favourable conclusions about the net fiscal benefit of immigration to the UK economy, specifically excluded consideration of differentials in the costs of education and health other than by age. Criminal justice, security and the costs of race relations were not mentioned at all. These are most unlikely to be the same for immigrants and natives and in some cases are known not to be.

Managed skilled migration has some clear, if minor, advantages for the domestic population, as long as it is not permanently institutionalised to the detriment of conditions and domestic training. The under-funded UK National Health Service, long dependent on foreign doctors and nurses trained abroad, is an important example of such institutionalisation. If low-skill labour were scarce, then responses could include increasing wages, reforming welfare, automating the functions, exporting production, or in the case of tradable activities, simply abandoning the activity – like some marginal agricultural production. These policies are not easy; the only ‘easy’ option is immigration. In the longer term dependency on immigrant labour may distort the economy and labour markets. There is a risk that immigration may be used as a short-term ‘solution’ with permanent consequences to avoid addressing fundamental, essential but difficult reforms: of pensions, the labour market, welfare, unemployment arrangements, conditions of service, investment in training, rectification of gender equity problems. These must all be addressed if the UK and other Western societies are to be self-sustaining. What matters today for economic welfare is the quality and level of labour mobilisation, output and productivity per worker. Migration has a part to play. As in the past it will be minor, but with potentially negative consequences.

In general, it is concluded that the economic consequences of large-scale immigration are mostly trivial, negative or transient, and therefore the claim that it will bring great economic benefit to the UK is mistaken. Some will gain, but others will lose. At the end of the day, the more important effects of large-scale migration on the UK are demographic, social and environmental; promoting unexpected renewed growth in population and housing demand, risking new and intractable social divisions and the risk

of a corresponding weakening of national identity and cohesion, with the eventual prospect of the eclipse or marginalisation of the population receiving the migrants and of its culture.

Such findings are in line with those from other developed countries. This conclusion raises the question, more for political scientists than for economists or demographers to answer, as to why the UK government has embarked on an enterprise so implausibly beneficial to the domestic population.