Briefing Paper 1.19

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MIGRATIONWATCH COMMENTARY - ITEM CLUB SPECIAL REPORT: MIGRATION AND THE UK ECONOMY

Ernst & Young published on 18 December a special report on migration and the UK economy.

The press release [1], entitled Foreign workers have allowed 3% growth without inflation, was relentlessly positive but there were some important points in the report itself that were not highlighted in the release:

a) Immigration numbers
The report confused various terms, claiming that A8 immigrants accounted for 37% of arrivals in 2006. In fact they were 15.6% of the total inflow and 18% of the non British inflow. They were 22% of net foreign immigration.

b) GDP per head
The report admitted that the lower wage rates of the most recent immigrants implied that the rise in GDP per head (rather than GDP) might be small or even negative.

c) Outlook for growth
The report stated (page 5) that, over the period 2007 -16, "immigration at current levels, should it continue, would add about 0.3% per annum to trend growth". The report did not mention that immigration at current levels will add approximately 0.4% annually to population. The impact on GDP per head would therefore again be somewhat negative.

d) Impact on youth
The report recognised (page 9) that there had been a surprising rise of around 100,000 in unemployment in the 18-24 age group (excluding those in full time education) since early 2004. This accounted for about half the overall rise in unemployment over the period. The report thought it possible that "native" youngsters may have been losing out in the battle for entry level jobs. Rigidities arising from the minimum wage might have been another factor. The press statement quoted the Chairman of Ernst & Young as saying that "business has to do something to address the fact that the UK has one of the lowest levels of youth employment among all the major OECD countries and re-engage with a lost generation who have slipped through the net.

e) Productivity
The report notes that total factor productivity growth (that part of actual growth not explained by the growth of labour and capital inputs) between 2002 and 2006 totalled 0.8% - below the 1.2% seen in the 1995 -2000 upswing and also below the long term average (since 1973) of 1%. This is a significant result.

f) The alternative
The report notes that we do not know what would have happened to domestic labour supply in the absence of increased immigration. "It might have proved surprisingly elastic via increased participation rates in marginal groups". This, as the report acknowledges, was the case in the late 1980s.

Conclusion
The press release states clearly the view of the Item Club:

ITEM believes it is important that current and future governments continue to keep an open mind and open doors to economic migrants. The UK economy needs the current rate of growth of immigration to be sustained particularly as our UK-born working pool is growing more slowly than the pensioner population.

Unfortunately, much in this report is evidence in the opposite direction. As for the implication that immigration can help with pensions, The House of Lords Economic Affairs Committee dismissed this argument in November 2003. They reported:

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

1 January, 2008

NOTES

1 http://www.ey.com/global/Content.nsf/UK/Media_-_07_12_18_DC_-_Foreign_workers