

Gerard Lyons

The real impact of immigration

Business viewpoint

The economic hot topics in the general election have been the budget deficit and immigration. What are the economics of immigration?

Britain has large inflows and outflows of people each year, and inflows have exceeded those leaving for some time. Thus the population is rising, with net immigration, rather than births and deaths, being the reason. This looks set to continue.

Last October the Office for National Statistics projected that the population would rise from 61.4 million in 2008 to 65.6 million in 2018 and to 71.6 million by 2033: a 10.2 million increase over 25 years. All of this would be in England and much of it in the South East. Many migrants are young and likely to have children. Immigration, including births to migrants, would account for two thirds of this increase.

An increasing number of immigrants are coming from the Continent. Why? In 2004, eight Eastern European countries (the A8) entered the European Union, where countries apart from the UK, the Irish Republic and Sweden placed labour restrictions on new migrants. These have to end by April 2011. One consequence was that in the recent boom, one in three new migrants to the UK came from the A8. Add in other countries and just under half of new migrants are from Europe.

One of the main aims of the EU was to have a single market in which people, goods and services could move freely. The UK, among others, has always been in favour of this, and rightly so. In future, the UK may be able to control inflows of immigrants only from outside the EU.

Globalisation has increased flows of goods, commodities, services, money, investment and people. It makes sense for people to settle where they can use their skills best. This is as true for immigrants as for those moving within a country. Not all immigrants stay long term — some leave after a few years or during

recession. In good times, many countries see immigration as necessary, but when recession hits and unemployment rises, it can become a political issue. This is neither a surprise nor new. Gerard, my 12-year-old son, pointed out that during the 1381 Peasants' Revolt, Londoners turned on and killed immigrant Flemish workers for stealing their jobs.

Now, as then, people can feel threatened by immigration. Yet with the right policy it should be positive for an economy. Ideally, we should recruit immigrants who can fill skill shortages, or ones who have capital to invest. Apart from the small number of asylum-seekers, economic factors drive immigration: looking for work, taking up a specific job, to

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accompany a partner and studying. Evidence shows that most migrants improve their living standards, establish their families and send money back home. These remittance flows can be a huge help to poor countries.

What about the impact on the UK? The arguments put forward by the authorities in favour of immigration have been that it boosts economic growth, that it fills jobs and skill shortages and that it boosts tax revenue. But to say that migration boosts the economy overstates the case. The question is: what happens to the standard of living, particularly that of locals? In April 2008 a House of Lords report found “no evidence

for the argument that net immigration generates significant economic benefits for the existing UK population”.

As Bob Rowthorn, of the University of Cambridge, said: “Natives gain from the inflow of workers whose characteristics complement their own, but lose from the inflows of workers who are like themselves and against whom they must compete.” Such problems can be compounded if immigration is on too big a scale over a short time. Competition from new migrants also squeezes wages, although the offsetting benefits are a boost to productivity and lower prices for consumers.

It may be tempting to believe that immigration addresses Britain's problems of ageing and pensions, but it does not. The ratio of working-age people to pensioners would still dip from 3.2 to 2.8 by 2033. A falling figure is a worry, hence the need to raise the retirement age. The reality is if immigrants stay and retire, there will be the need to have continuous inflows.

There are global lessons. The United States benefits from immigration; Japan and China are wary. Successful economies such as those of Canada or Singapore offer residency or citizenship to professionals or to those able to add high value. In contrast, many countries control the stay of manual workers. The lesson is an open-door policy for professionals but tight controls over low-skilled workers, especially as these are more likely to become dependent on benefits.

Some countries take the view that migrants do the dirty, dangerous or demeaning jobs. That is not the approach we take, nor should it be. We should focus on attracting the skilled and socially useful and encouraging students to remain after their degrees. Such an enlightened approach would work.

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