

CIVITAS BACKGROUND BRIEFING

RESPONSE TO TONY BLAIR'S FIRST SPEECH ON IMMIGRATION

By Anthony Browne,

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The government needs to accept – and take into account – the negative economic consequences of immigration when setting immigration policy, rather than only considering the positive ones. Otherwise Britain will not get the immigration policy that best serves its interests.

"The great enemy of the truth is very often not the lie - deliberate, contrived, and dishonest - but the myth - persistent, persuasive and unrealistic. Too often we hold fast to the cliches of our forebears. We subject all facts to a prefabricated set of interpretations. We enjoy the comfort of opinion without the discomfort of thought"

President John F. Kennedy speaking to Yale University, 1962.

"Immigration policy has been captured by special interests who peddle the notion that immigration is an unmitigated benefit to the nation and that it is costless. Nothing could be further from the truth. The immigration myth is based on the premise that attention need only be paid to the benefits while the costs can be totally ignored. Only with respect to the formulation of immigration policy is such nonsense tolerated as conventional wisdom."

Vernon Briggs, Professor of Industrial and Labor Relations, Cornell University, giving evidence to the Immigration Subcommittee of the U.S. House Committee of the Judiciary, 1999

THE FOUR "FACTS"

The Prime Minister's speech to the Confederation of British Industry on 27th April 2004 was his first major speech on immigration, where he accepted the legitimacy of much public concern about abuse of the immigration system. But he then set out the case for the government's policy of actively encouraging mass immigration to the UK. He justified it on the basis of long discussion, which he boiled down to "four facts" – in addition to a claim that Britain had to have immigration because of the high level of vacancies. All the facts are either outright misleading, or at best highly contentious. But first we start with Tony Blair's main claim.

The main claim: "There are half a million vacancies in our job market, and our strong and growing economy needs migration to fill these vacancies"

According to National Statistics, there were 591,500 job vacancies in the three months to March 2004. But that was almost exactly the same level as March 2002, and equates to just 2.3 vacancies per 100 employee jobs, a rate consistent with the "churn" as people leave jobs when they move to another one, rather than evidence of unfilled long term vacancies. It is impossible to achieve zero vacancies, which would imply a static economy with no one changing jobs and no jobs being created and destroyed.

The number of vacancies is also small compared to the number of people available to work in the UK. Officially, according to the governments preferred definition of unemployment (the International Labour Organisation definition, measured through the Labour Force Survey), there are 1.426 million unemployed, two and a half times the number of vacancies.

In addition to the 1.4 million officially unemployed, there are 7.7 million people of working age classified as “economically inactive”, neither working nor looking for work, including 3.0 million men. Of these 7.74 million economically inactive, 2.06 million want a job but for a variety of reasons aren’t looking.

In other words, although the UK has 591,500 vacancies, there are 3.49 million adults of working age not working who want a job – or very nearly six people (5.89) out of work wanting a job for every single vacancy.

This is consistent with the Confederation of British Industry’s latest industrial trends survey (April 2004), which showed that just 10 % of manufacturers said a shortage of skilled labour affected output, and 3 % said shortages of other (semi skilled and unskilled) was a constraining factor. In other words, 90 % of British manufacturers can get as much skilled labour as they need, and 97 % can get as much unskilled and semiskilled labour as they need.

The government may be proud of its record on official unemployment, but Britain suffers far higher levels of hidden unemployment than other countries. One in four men between the ages of 50 and 65 - nearly 1.3 million people - are economically inactive, often involuntarily prematurely retired. The proportion of men aged between 55 and 64 in employment has fallen from 71.5 % in 1983 to 63.3 % in 2000. Anti-ageism campaigners insist that enabling these people to work – often highly skilled and experienced - would more than fill any labour market shortages in the UK. Pension experts also insist that getting these people to work is essential to pay for our increasing life-expectancy.

There are now 2.7 million people out of work and on sickness or disability benefits with no obligation to look for work, even though many are perfectly capable of work. The government now accepts that this is a vast pool of hidden unemployment. A recent parliamentary answer revealed that two high profile government schemes had simply shifted 160,000 job seekers on to other forms of benefits.

When you take into account the hidden unemployment, Britain’s labour market is only performing at the European average. The TUC estimates that 11.5 % of those of working age want a job in the UK, the same as the EU average, and actually higher than other countries that the Prime Minister claimed had higher unemployment than Britain, including Germany (11.4%) and France (9.8 %).

The official unemployment rate is 4.8 % of the workforce in the UK, but only in Britain, with its long history of high unemployment, would the government consider unemployment of 4.8 % is “full employment”. The Trades Union Congress considers full employment closer to 3%, similar to the levels in the 1950s and 60s before the oil shock of 1973. UK official unemployment is higher than many European countries such as Austria and the Netherlands, and similar to Japan, which

is fretting about mass unemployment, and not much lower than the US, where there are widespread complaints of a “jobless recovery”.

When Labour was elected in 1997, it repeatedly highlighted a new measure of unemployment which it claimed showed the social impact of joblessness under the Conservative government – the number of “jobless households” where no one is working. This stood at 3.12 million, or 16.8% of all working age households in Autumn 1998, when the Office for National Statistics first started measuring it. The latest figures, Autumn 2003, shows that the number of jobless households stands at 2.98 million or 15.6% of all working age households – an insignificant decline. By Labour’s own favourite measure of the impact of unemployment, Britain is almost as blighted now as it was when Labour came to power. If this measure of unemployment was a problem then, it is still a problem now. It would be interesting to see Mr Blair explain to people in those workless households why Britain needs record levels of immigration to fill jobs that are otherwise unfillable.

Labour also liked to highlight the huge number of children growing up in workless households, without a role model to educate them about the world of work . In Autumn 1998, 2.1 million children, 17% of the total, were growing up in workless households. It is now 1.8 million children, or 15% of the total, a marginal decrease. Again, if children living in workless households was a problem when labour were elected, it is still a major problem now.

Particular groups suffer disproportionately. School leavers, age 16 and 17, suffer unemployment of 21.1 %, while 18 to 24 year old men suffer unemployment of 11.3 %. Only 58 % of ethnic minorities of working age have a job, compared to the national average of 74.9 %.

Over 30 % of black African households are workless, as are a quarter of Bangladeshi and Pakistani households. Some regions suffer particularly badly, particularly those areas that Labour insist are most in need of immigration. London, where most migrants come, is supposedly in greatest need of workers, and yet there is already a vast surplus of labour in London. Far from having full employment, the capital is the UK’s unemployment blackspot, with unemployment of 6.8 %, the highest of any region of the country, higher than Northern Ireland, Scotland or the North East of England. In six London boroughs (Tower Hamlets, Southwark, Newham, Lewisham, Haringey, and Hackney), unemployment is over 10 %.

There is also startlingly high economic inactivity in London – people neither working nor looking for work, and so who don’t officially count as unemployed. Nearly 1.2 million people in London are of working age but not working. Across the country as a whole, 21.9 % of people of working age are neither working nor looking for work, but it rises to over 30 % in Hackney, Haringey, Newham, Tower Hamlets, Kensington and Chelsea and Westminster.

The government’s encouragement of mass immigration also indirectly increases the total benefits bill it must pay. Millions of British workers are on means-tested benefits which supplement their low incomes, such as housing benefit, income support, working families tax credit and council tax benefit. Since reliance on

immigration has the effect of suppressing wages (see below), it means that more workers rely on these benefits than would otherwise be the case.

If the labour market were allowed to operate freely, rather than being undermined by the government's immigration policy, then wages would rise faster, which would take more of the low paid off in-work benefits. Allowing the labour market to operate freely would also help draw disadvantaged workers, such as ethnic minorities, the young, single parents and the over-50s, into the world of work by giving them greater opportunities, and denying companies the easier option of importing workers from overseas. Industry has an important social role in helping bring disadvantaged workers into the labour market, but this is undermined by the government's open door immigration policy. Put simply, few things would encourage a young long term unemployed ethnic minority man into the mainstream of society than the availability of reasonably well-paid jobs and the eventual prospect of promotion. If all he can get are jobs paying close to the minimum wage, it makes economic sense to claim benefits and seek unofficial ways of making money.

Blair Fact 1: “the movement of people and labour into and out of the UK is, and always has been, absolutely essential to our economy.”

Those who wish to justify the history unprecedented levels of immigration into the UK often like to claim that it is just history as normal. Mr Blair's historical assertion is so simplistic it immediately invites an equally simplistic response: were the Viking raids of the eight and ninth centuries AD, which destroyed communities, interrupted trade and decimated agriculture, really “absolutely essential to our economy”?

He mentioned the benefits that many refugees brought, from the French Huguenot in the 17th century to Polish fighters in the Second World War, but even accepting the contributions these people undoubtedly made, that cannot be used to justify actively encouraging immigration on the current scale. The fact is that through most of its history, the contribution of immigrants has been marginal, if only because until recently the scale of immigration has been marginal. Britain became the first industrial country in the world, and became the largest economic power in the world in the nineteenth century, in the almost complete absence of immigration to these isles. Historically Britain has been a country of emigration not immigration, founding the US, Canada, Australia and New Zealand.

Nor is the UK unique in its historic non-reliance on immigration. Japan became the world's second largest economy after the second world war in the almost total absence of immigration, while Norway became the country with the highest quality of life in the world (according to the UN) with almost no immigration. South Korea has been performing an economic miracle with virtually no immigration, while China is terrifying the west by being the world's most economically dynamic country, despite its almost complete lack of immigration.

Mr Blair failed to mention that for only about 20 years – after the Second World War - out of the last 2000 years has the UK had a policy of actively encouraging mass primary immigration. At all other times, the policy has been one of letting in refugees and family members on humanitarian grounds, as well as a relatively small

number for meeting specific skills shortages. Mr Blair's policy of actively encouraging mass primary immigration is a historical anomaly. For the first time in modern history, immigration is increasing the population of the UK.

Mr Blair highlighted the contributions of immigrants from South Asia who helped the 1950's economic boom. What he failed to mention is that many of these were recruited to the textiles industries of Britain's northern towns that were trying to compete on the basis of low wages with textiles companies in Asia. They failed, and they are now almost all closed, leaving as their legacy the alienated Bangladeshi and Pakistani communities they imported languishing in poverty and unemployment in seriously socially divided towns. On any economic assessment, the immigration policy was a failure.

Britain can never compete on the basis of low wages with low cost countries such as China for the simple reason that the cost of living is so much higher, and it is a mistake to try. Although cheap labour immigration may have staved off the demise of those industries for a short while, it also compromised them by encouraging them to go down the cheap labour route, and discouraging them from going up the high productivity/value added route (such as designer clothes and mechanising), which was their only chance of competing with Asia. In this sense, the cheap labour immigration policy actually helped ensure their long-term demise.

While mentioning the positive economics aspects of immigration – which certainly exist – Mr Blair failed to balance that with any consideration of the negative consequences: worse employment opportunities and wages for vulnerable workers, particularly the unskilled, reduced labour productivity, reduced incentives to train native workers, greater economic inequality, greater congestion and exacerbated housing shortages.

Lord Richard Layard, the co-director of the Centre for Economic Performance at the London School of Economics, and the mastermind of Labour's welfare to work programme, has written:

'There is a huge amount of evidence that any increase in the number of unskilled workers lowers unskilled wages and increases the unskilled unemployment rate. If we are concerned about fairness, we ought not to ignore these facts. Employers gain from unskilled immigration. The unskilled do not.'

The Home Office commissioned an econometric research study ("The local labour market effects of immigration in the UK" Home Office online report 06/03) on the effects of immigration, and it found: "The effect of immigration on unemployment is positive and statistically significant" (ie immigration pushes up unemployment). It even measured the scale of the effect: "An increase in immigration amounting to one % of the non-immigrant population would lead, according to this result, to an increase of 0.18 percentage points in the non-immigrant unemployment rate." This government research implies that in the UK, with immigration amounting to around 10% of the work force, unemployment would be 3 %, which really is close to full employment, rather than 5%.

In fact, the government implicitly accepts that immigration hurts the labour market prospects of those already here, otherwise it would not require employers to advertise a job in the UK before they are allowed to import workers from outside the EU. Recently, because of the impact that having open immigration of IT workers was having on native IT workers, the government scrapped the fast-track visa system for the sector. Recently, the Home Secretary David Blunkett said that he wouldn't be encouraging so much immigration to Britain if unemployment were higher than it is. Though they refuse to explicitly accept the labour market consequences of immigration, they do accept them implicitly.

As Lord Layard implied, there is overwhelming evidence that the laws of supply and demand are not miraculously suspended when it comes to the effects of immigration on wages. Professor George Borjas of Harvard University, a Cuban refugee to the US who is widely regarded as the world's greatest immigration economist (and author of the main US government report in the last thirty years on immigration), recently conducted the most detailed study yet carried out on the impact of immigration on wages ("The Labor Demand Curve is Downward Sloping: Re-examining the impact of immigration on the labour market", National Bureau of Economic Research, June 2003). It concluded that in the US: "immigration has substantially worsened the labour market opportunities faced by many native workers." He found that immigration in the US has reduced wages of the average worker by 3.2%, rising to 8.9% for high school drop outs. His overall conclusion was that: "The analysis indicates that immigration lowers the wage of competing workers: a 10% increase in supply reduces wages by 3 to 4%."

In London, where most immigrants come, we may already be seeing these effects in the areas that immigrants most usually work. According to Income Data Services, shelf-fillers in shops now earn 10 % less in London, which has a huge pool of cheap immigrant labour, than the national average. Chains such as McDonalds and Burger King, which have previously always had their highest pay rates in central London, now pay higher rates in places outside London than they do in London. This is good if you like cheap big Macs in central London, but not good if these are the sort of jobs you are competing for.

It is not just the unskilled who could be affected. The Chartered Institute for Personnel and Development issued a report on April 30th 2004, the day before 8 eastern European countries joined the EU, warning that "Highly skilled, English-speaking job applicants from accession states could reduce pay rates. UK salaries for white-collar professionals such as lawyers and accountants could be driven down by European enlargement."

Relying on cheap labour imports to boost the economy can also have the effect of reducing productivity, by discouraging companies from mechanising or investing in the training of their personnel. The world's most revered central banker, Alan Greenspan, Chairman of the US Federal Reserve, gave testimony to the U.S. Senate last year:

"Although discovery of new technologies is to some degree a matter of luck, we know that human activities do respond to economic incentives. A relative shortage of workers should increase the incentives for developing labor-saving technologies and

may actually spur technological development. Economic historians have argued that one reason that the United States surpassed Great Britain in the early nineteenth century as the leader in technological innovation was the relative scarcity of labor in the United States. Patent records of this period show that innovation did respond to economic incentives and that the scarcity of labor clearly provided incentives to develop new methods of production.”

Mr Blair mentioned a Treasury analysis that the economic growth rate would be 0.5 % less if migration ceased for the next two years. Immigration certainly does increase GDP because the more people there are working, the more the economic output will be, but most of the increase in GDP goes to the immigrants themselves. What matters to native workers is not GDP, but GDP per capita: they don't care how big the economy is, but how rich they are. A US government study found that while immigration had increase the US GDP by \$200bn a year, actually only between \$1bn and \$10bn of this went to the workers already in the US, a trivial amount compared to the \$8,000 bn US economy, with the rest going in pay to the immigrants themselves. In total, immigration only increased US GDP growth by 0.1 per cent a year, a trivial amount.

As Martin Wolf, the chief economic commentator of the Financial Times wrote on the 13th April 2004: “In a competitive economy the gains from migration should largely accrue to migrants themselves, leaving little over for the recipient community. In theory, the latter will enjoy an economic surplus. But this is likely to be small.” He concluded: “one's assessment of the desirability of sizeable immigration is a matter more of values than of economics. It is not a choice between wealth and poverty, but of the sort of country one desires to inhabit.”

It is a matter of both common sense and academic analysis that immigration at the current rate to the UK, of around 200,000 people a year, has an impact on the housing market, increasing shortages and pushing up rents and house prices, and thus reducing labour mobility. By boosting the population, it also increases congestion on roads and public transport, exacerbating the shortage of land for factories and offices, further damaging the economy. In compensation, the economies of scale of increasing the population through increasing the size of the domestic market are marginal in an open trading economy like the UK.

Having a policy of population growth can make economic sense in sparsely populated lands where a critical mass of humanity is needed for a certain level of infrastructure such as roads, as well as to develop sufficient local markets for certain goods and services that cannot be delivered long distance. But population growth can be economically damaging for a highly densely populated country already suffering from congestion costs, with land shortages acting as a constraint on business. The US economist Julian Simon of the Cato Institute, a very high profile advocate of mass immigration, conducted a study in 1989 to prove his thesis that a greater population led to greater GDP per capita across a range of countries, but was forced to concede that he could find no such correlation.

Although the problems of housing shortage and congestion are of acute concern to the British public, the government showed its obliviousness to this aspect when the

Home Secretary David Blunkett declared there was “no obvious upper limit” to the number of immigrants the UK should admit.

Ignoring any of the negative consequences of the immigration, as this government persistently does, means that it is unable to formulate an optimum immigration policy, which necessarily means striking a balance between the positive aspects with the negative ones, and between the winners from immigration (generally those who employ immigrants) with the losers (generally those who compete with immigrants). As Vernon Briggs of Cornell University testified to the US Congress:

“The “costs” of immigration need to be taken into account as much as do the “benefits” when it comes to designing the appropriate policy. The concerns of the “losers” are as relevant as those of the “winners.” Such is especially the case when those most adversely impacted are the least advantaged persons in the population and labor market.”

The International Labour Organisation’s paper on migration, “Migration for all: towards a new paradigm for migrant labour”, said:

“In the understandable enthusiasm to open borders to eager workers, unrealistic claims have been trumpeted, corners have been cut, and foreseeable difficulties have received inadequate attention. As such, many of the problems created by migrant worker programmes have occurred as consequences which were either unintended or unacknowledged by the proponents and architects of these policies.”

Blair Fact 2: “The country is already highly selective about who is allowed in to the UK to work, study or settle”

The Prime Minister is keen to reassure those who worry that immigration is out of control, by saying that almost 220,000 people were refused entry clearance into the UK in 2002 – three times the rate of 1992. But immigration has increased a similar amount, so the level of selectiveness is almost unchanged.

However, he didn’t mention that the government has a target of issuing 200,000 work permits to non-EU citizens every year, and that it has another target of processing 90% of those applications for work permits within 24 hours of receiving them. Needless to say, processing them in such short time means that virtually no checks are being done on either whether the applicant or their claimed qualifications are genuine, or whether the employer’s need is genuine. The lack of not just controls but elementary inspection of “language schools” which are free to import for profit as many students as they like has been a notorious loophole for years which the government has just announced an intention to consider some measures to close it. Registry officers claim that one in five marriages in London is a commercial scam in order to obtain UK citizenship, which hardly suggests that the UK is “highly selective.”

In contrast, in countries of immigration such as Canada and Australia, there are very tight controls on language schools and marriages, with far tighter criteria for admission in the first place. It is far easier for a British person to import a spouse than it is for a Canadian citizen to import one.

Mr Blair wistfully says that anyone being admitted to the UK to work or study must “satisfy our overseas embassies that they will leave the UK at the end of their stay.” Unfortunately for Mr Blair, UK embassies do not possess fully functioning crystal balls. Unfortunately also, the government has absolutely no way of knowing whether those that it lets in to Britain do actually leave: the abolition of immigration exit controls means that it is actually impossible to tell whether someone has left the country or not. This is in stark contrast to, for example, the US and Australia where whenever visitors enter or leave the country, they have their passports entered into a computer, which automatically flags up if they overstay their visa – and then automatically imposes sanctions on them if they overstay, such as not being allowed back into the country for ten years. Since it is impossible for the government to catch visa-overstayers, it is impossible for the government to impose sanctions, and so there is no incentive for those whose visas run out to leave when they are meant to. It should be no surprise that visa-overstaying – such as moving here permanently on a short stay visitors visa - is widely thought to be the main form of illegal immigration to the UK.

The US, Canada, Australia and New Zealand all have complex, tightly upheld, immigration procedures that require would-be immigrants to prove – among other things – that they are not criminals and do not have diseases that will make them a threat to public health or a burden on the health system. In contrast, despite the fact that immigration has tripled the rate of HIV and doubled the rate of TB in Britain, the UK has no health tests for would be immigrants. In fact, the UK is now the only country in the world of primary immigration, apart from Israel, that does not select between the seriously sick and the healthy. Even in the heyday of mass immigration to the US, the sick were turned away at Ellis Island.

Blair Fact 3: “In international terms, the UK is not a particularly high migration country”

Mr Blair points out that in the UK, only 8 % of the work force is foreign born, compared to 15 % in the US and 25 % in Australia. He doesn't point out that the US is only 12 % as densely populated as the UK, and Australia 1 %. In contrast to the UK, they are empty continents and so can accept higher migration without the same quality of life and housing impacts.

According to the International Organisation for Migration in “International Migration Report 2002”, the UK had a stock of 4.029 million migrants, exceeded only by ten out of nearly 200 other countries in the world.

According to the IOM, in 2002 there were only five countries in the world that actively encouraged primary immigration as government policy: the US, Canada, Australia, New Zealand and Israel. To this list, we can now add the UK as a result of the government's U turn on the previous policy of no primary immigration. The five all have one thing in common – they are young countries, which happened to be created by Britain. They are all also empty lands with very low population density, apart from Israel, which has a policy of Jewish only immigration that would be incompatible with European notions of non-discrimination. In other words, the UK is the only mature, densely populated country in the world that has a policy of actively encouraging mass primary immigration.

The government likes to portray those who oppose its policy of encouraging immigration as extremists. But those who oppose the policy of actively encouraging mass immigration, are only asking for a return to the immigration policy that the UK has had for all but 20 of the last 2000 years, asking for a similar immigration policy as every other EU country, and a similar policy to all but 5 of the world's nearly 200 countries.

In historic and contemporary global terms, it is the Blair government's immigration policy that is extreme.

Fact 4: “Those who come here make a huge contribution, particularly to our public services.”

Mr Blair points out the very high proportion of immigrants working in the National Health Service and in schools, and reiterates the clearly true fact that much of Britain's public services would collapse if the immigrants who staffed them suddenly disappeared. But he failed to point out this was the inevitable results of thirty years of government policy of employing cheap, willing immigrants rather than improving pay and conditions so that Britain can train and retain enough of its own workers. One third of trainee nurses in Britain are so disheartened they leave the profession before they qualify, and Britain has 100,000 fully qualified nurses not working in nursing, more than enough to fill any vacancies. Record numbers of British nurses are also leaving the UK for better pay and conditions overseas.

The policy of refusing to improve pay and conditions to the level needed to ensure that Britain supplies enough of its own medical staff and teachers has two consequences. It saves money for the British taxpayer, and it deprives developing countries of staff they need more urgently than Britain does, and which their even more impoverished tax payers paid for the training of. If the fourth largest economy in the world refuses to pay enough to ensure its own supply of nurses and teachers, it guarantees a global shortage of these mobile professions, from which the world's poorest countries are the guaranteed losers.

There is nothing inevitable about this. Other countries with better funded health services, such as France and Germany, have had good records of developing their own supply of staff and don't rely nearly so heavily on immigrant labour. The NHS's dependence on developing world labour is an anomaly in the developed world.

The United Nation's International Labour Organisation perfectly described the self-defeating nature of British government policy, and the flaw in Tony Blair's argument, in its 2001 report “Migration for the Benefit of All: Towards a New Paradigm for Migrant Labour”. It warned that the policy lead to “native flight” from those professions, led to “migrant ghettoisation” in them, and ensured a short term labour shortage became a long term one:

“It is just a near certainty that by targeting occupations which are already failing to attract natives, such sectors have become even less attractive to natives as wage growth is depressed relative to non-target sectors. Since the occupations under recruitment for migrants may provide one of the very few portals into the host

economy, migrants may conversely be expected to flock to these entry occupations. These two effects, when taken in combination, lead to the phenomenon of native flight which is sometimes referred to as “ghettoization”. This is generally seen as a problem for nations, which are striving for a migrant presence to complement natives rather than displacing them.”

It continues:

“As more migrants are targeted on a particular field which is failing in its bid to attract native workers, wages will increasingly fall short of competitive offerings, causing an acceleration of native flight towards non-targetted fields. This curious cycle is sometimes seen as a “native worker shortage”, though the term seems particularly ill suited to describe a problem of employers which is ultimately self inflicted. What may in fact begin as a simple temporary “sport shortage” of trained native workers, can in fact be made considerably more permanent by the attempting a quick fix from migrant labour. 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”