HOUSE OF LORDS

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The Economic Impact of Immigration

Volume II: Evidence

HL Paper 82–II

34. Again, competency in the English language is an issue here. There could be negative impacts on productivity in some sectors if migrant workers struggle with English and co-workers have to assist them. We encourage the Committee to examine the language constraint and to recommend arrangements to improve the language situation, which would in turn aid assimilation as well as labour market outcomes.

27 September 2007

Memorandum by J. Sainsbury plc

Our use of immigrant labour in retail and distribution areas has grown significantly in the last two years, and indications are that this growth will continue.

We have been able to utilise immigrant labour to improve our business performance by filling pressing gaps in both skilled and unskilled areas.

We look for the same characteristics in a migrant worker to those of a domestic one, and do not set out specifically to recruit them. We seek the highest calibre recruit for each vacancy from the local pool of labour.

The main factors that influence migrant workers into joining Sainsbury's involve the wage differentials between the UK and their homeland, although a range of other factors play a part. Many workers only join on a short term/temporary basis, whereas a significant number intend to remain long-term.

We have found that migrants from European Union countries tend to stay for shorter periods to earn sufficient money to set themselves up back in their homeland.

In some areas, we have definitely seen a positive shift in culture where migrant workers have been introduced, which has led to a more diverse workforce fostering a more engaged group of workers.

Where we have engaged skilled workers (HGV drivers from Poland, for example), we have had to be creative in arranging their work patterns to allow them to return to their homeland regularly. This has encouraged us to consider the use of flexibility among the whole workforce.

We have found migrant workers to have a very satisfactory work ethic, in many cases superior to domestic workers. We believe that this results from their differing motivations, they want to learn English, or send money home to their families. They tend to be more willing to work flexibly, and be satisfied with their duties, terms and conditions and productivity requirements. In the long term, this could have a positive effect on their domestic colleagues.

Language barriers are a disadvantage, and migrants understanding of health and safety requirements are naturally a major concern. Here, again, we have had to take a very flexible approach by adapting our communications and signage. Placing migrant workers among English-speaking colleagues and using fellow workers as interpreters has proven useful.

There has been a little limited Trade Union resistance locally to the use of migrant labour, on the basis of "local" jobs being filled by migrant workers.

We anticipate that the use of migrant workers in the future will increase within Sainsbury's, as the UK population declines, and it will also help us, in part, to address the problem of an ageing population.

We do find that it appears that there are gaps in the provision of support services to migrant workers, or barriers to them accessing the services. Generally, better provision needs to be made for migrant workers in terms of advice on housing, banking, language and cross-cultural awareness.

30 September 2007

Memorandum by Mr Anthony Scholefield

1. The argument of this paper is that the impact on the wealth of natives of the economic effects of immigration is more important than the small effects on the total GDP of existing natives, but that there is a substantial impact on the distribution of income among natives.

2. Adam Smith entitled his famous work, *An Inquiry into the Nature and Causes of the Wealth of Nations* and Karl Marx called his work, *Capital*. The effects of capital and wealth matter.

3. The issue of the impact of immigration on wealth is rarely discussed. It is this—when an immigrant worker arrives without capital and earns the same as the average native worker, that means the wealth of the country is being shared among more people and, therefore, wealth and capital per head are reduced and the native suffers a loss of wealth and a lower ability to produce income.

How can an immigrant worker finance his initial stake in society—the same amount of wealth that the native workers have been building up over generations and centuries?

How is the loss of wealth to the native to be made up? Is it possible to make it up?

Much of the debate on the effects of migration in such areas as "the public services" and housing is inchoate because it does not have an intellectual framework.

4. The fundamental economic benchmark relating to the economic effects of immigration is that put forward by the National Research Council[40] of the USA, which states that "if immigrants have exactly the same skill distribution as domestic workers and if they have brought sufficient capital with them to maintain the US capital/labor ratio, then natives will neither benefit nor lose from immigration".

5. From this, my analysis (using 2004 figures) concludes that immigrant workers who bring £141,000 of capital per head into the UK (ie the amount of total British wealth divided by the total number of British workers), or £282,000 for a family of four; who make no foreign remittances; and who have at least the mean average skills of natives can possibly be of economic benefit to native Britons (this excludes fiscal and national identity costs).

The average migrant worker contributes only £2,235 to the annual increase in the wealth of the country (£988 after foreign remittances).

6. Immigrant workers without £141,000 of capital must have that amount of capital instantly provided for them, or else they crowd in and appropriate part of the wealth of natives.

7. To answer the question, what should an immigrant earn in the UK in 2006 to add to GDP per head, an estimate is attached showing it should be £67,000 per annum for a family, exclusive of fiscal and cultural costs.

Wealth and Immigration

1. The argument as to the effect of immigration on native wages is binary: either the wages of competing natives fall after the arrival of immigrant workers or they do not.

Free market economists, such as those at the National Research Council of the USA [NRC] and Professor Borjas,[41] believe that the wages of workers competing with immigrants do fall, and indeed this is the basic law of supply and demand; but they also appear to believe, without much analysis however, that the process of capital adjustment means that the capital–labour ratio is subsequently restored, and that wage rates return to pre-immigration levels but not above that level. This argument has never been properly worked out and the likelihood is that the capital adjustment process will not provide more than a fraction of the £282,000 of wealth required by each immigrant family.

The alternative argument—that wages do not fall, and that the effect of increased supply has no effect on price—runs counter to the analysis of the American experts.

However, if we take the view that immigration has no depressing effect on native wages, then, as Borjas indicates, we are in for a shock:

> . . . there is no immigration surplus, if the native wage is not reduced by immigration.
>
> In other words, if some workers are not harmed by immigration, many of the benefits that are typically attributed to immigration—higher profits for firms, lower prices for consumers—cease to exist. As I pointed out earlier, no pain, no gain.

This also has further interesting effects since if wages of competing natives do not fall, there can be no extra returns to capital following immigrant-induced fall in wages, no capital adjustment and, therefore, immigrants' capital must be appropriated from natives. Those who say that there is no fall in wages when the supply of workers increases should be asked to explain where the capital requirements of immigrants are to be generated.

2. In this submission, it is assumed that immigrants do not bring capital with them. It is also assumed there is a free market, constant returns to scale, and existing investment is exactly right for natives. It assumes each worker has one dependant (as the current UK has). It does not consider fiscal or cultural costs.

3. The argument is that any addition to the population, whether through increased fertility or immigration without capital, must require capital and wealth to be provided for the newcomers. Either this is supplied by the newcomers alone after their arrival (in which case, assuming wages similar to those of natives, they can never catch up with natives, who have already accumulated wealth) or it is appropriated from natives, by a process called "assimilation", and apportioned to newcomers, in which case the natives suffer a loss of wealth.

[40] All references to the National Research Council are to the report of the Commission set up by the US Congress: National Research Council of the National Academy of Sciences, The New Americans: Economic Demographic and Fiscal Effects of Immigration. Washington DC, National Academies Press, 1997.

[41] All references to Professor Borjas refer to George J Borjas, Heaven's Door, Princeton, N J: Princeton University Press, 1999.

In one case, newcomers never catch up with natives and so cannot add to natives' wealth; in the other, the natives suffer an outright loss of wealth.

The only exception to this would be if newcomers were so skilled or so wealthy that they could provide for themselves the wealth the natives have accumulated over generations and centuries. Such newcomers to the USA and Britain do exist, but they are few in number. Only five out of 582,000 new arrivals in Britain in 2004 came under permits issued to persons "of independent means". As for the USA, in *The New Americans* the NRC quotes data from the US Immigration and Naturalization Service, showing that in 1995 10,465 visas were available for allocation to investors and their families, but only 540 were taken up—within an immigration total of 720,461.

4. The subject of the cost of immigration cannot be discussed without also discussing the costs of emigration. All the arguments put forward for the benefits of immigration are also arguments to discourage emigration. Indeed, more so since there are generally cultural and transitional costs in admitting one immigrant which do not apply when one emigrant is discouraged.

5. Most economic discussion on migration has concentrated on the impact of migration on income or GDP; but this is only part of the picture.

To take a simple point, all that is reflected in GDP figures for housing is the annual addition, which in Britain is around 135,000 houses (net) per annum, plus the cost of repairs, etc. The existence of 20 million houses plays no part in GDP calculations, but does play an immense part in wealth and "standard of living". All other "created assets", such as roads, schools, factories, etc, play the same role.

To consider the standard of living of a country's inhabitants, we must not only take account of the income and expenditure account, or GDP, but also the wealth or balance sheet. Standard of living does not depend solely on GDP: it also depends on the use of the accumulated wealth, such as houses, buildings, roads, factories, water supplies, power stations and a myriad other items. These are not reflected in GDP, except in the form of marginal annual additions.

Income and wealth are, of course, closely interconnected, with more income increasing wealth, and wealth in turn helping to increase income.

As the great American economic journalist, Henry Hazlitt, wrote:

> Almost the whole wealth of the modern world, nearly everything that distinguishes it from the preindustrial world of the 17th Century, consists of its accumulated capital.

6. Here are some relevant figures:

The wealth of the British people was estimated by National Statistics to total £4,245 billion in 2004 (this excludes consumer durables, except houses, and it also excludes land).

The accumulation of capital is dependent on many sources: the intensity of the labour force, numbers, skills, time, efforts, technology, entrepreneurial skills, etc. What we have to do is isolate the impact of migratory labour on capital accumulation.

Total fixed capital formation in 2004 was £190 billion, and capital consumption was £123 billion. This meant a net addition to capital stock of £67 billion, or 1.58% of wealth. In other words, the wealth of the UK amounts to roughly 60 years' worth of capital additions.

Some of this wealth—for example, machinery—depreciates quickly, but other capital stock has been accumulated over centuries, such as Oxbridge colleges, railways, dams, sewage works, etc. In the case of dwellings, there were 20.9 million in 2003, including a net addition of 134,000, or an addition to the capital stock of 0.64%, which means the capital stock is about 150 years' production. The *Independent* newspaper once calculated—and it seems a realistic estimate—that 95% of British roads were laid down before 1900, and, of course, the same applies to railways.

With 30 million workers in Britain, one can say that the total wealth per worker is £4,245 billion divided by 30 million, which is £141,000 per worker. In the following calculations, each worker is assumed to have one dependant.

> Each worker contributes £2,235 per annum (£67 billion divided by 30 million) to improve the country's capital, taking his share of capital additions either direct or via enterprises he works in.

7. The arrival of a migrant worker means that he instantly requires £141,000 of capital in order to bring his stock of wealth into line with that of natives, yet he contributes (assuming he is an average worker) only £2,235 per annum to capital formation. If the newcomer does not instantly supply the £141,000 capital, there is wealth dilution for natives.

A further point is that overseas remittances from Britain totalled £3.8 billion in 2003. If the foreign born constitute 10% of the workforce, as estimated by the Home Office, they should contribute 10% of £67 billion to capital formation, which is £6.7 billion; however, if the £3.8 billion of remittances is attributed solely to the foreign born, then their contribution to capital formation is only 44% of the £2,235 required, or £988 per worker.

One can consider the matter like this. A native worker has a capital bank account of £141,000, and adds £2,235 to it each year. A migrant worker has a capital bank account of nil and adds £988 per annum. It takes the immigrant 150 years (ignoring interest effects) to accumulate the capital the native has at the outset. In those 150 years, the native adds a further £336,000 to his capital bank account, making a total of £477,000.

Of course, a small number of high-earning migrants will pay for their requisite stock of wealth of £141,000 immediately or over a very short period; but the average immigrant, who, according to Home Office estimates, earns the same as natives, contributes only £988 per head per annum to the £141,000 required to bring him up to the native's wealth. Moreover, the native worker is already backed by £141,000 and is adding £2,235 per annum, so the wealth gap is widening.

The conclusion is that only those immigrant workers who a) bring in £141,000 of capital per worker with them, b) make no foreign remittances, and c) have at least the mean average skills of natives do not dilute the wealth of natives.

8. What happens when the immigrant worker does not have £141,000 of capital with him? We then have the phenomenon of "crowding-in". Immigrants use dwellings more intensively; they overload transport, water resources and all the other accumulated capital (we assume the native economy is in equilibrium). Production per head decreases, because there is capital dilution and so each worker has fewer "tools of production". As the *National Institute Economic Review* (No 198, October 2006) pointed out: "For each extra pair of hands income rises less in proportion because there is no extra capital." This diverts some capital from the job of intensifying the wealth of natives to that of supplying the needs of immigrants—either voluntarily, by the means of capital readjustment described below, or through government taxation. So, the increase in the capital backing of the natives is reduced, and there may also be some diversion of natives' consumption into supplying capital to immigrants. Immigration, therefore, reduces the wealth and consumption of natives.

Thus, not only is the per capita GDP of the new, combined workforce of natives and immigrants reduced below the previous per capita GDP of natives by the effects of immigration without capital, but so is the accumulation of the wealth of natives, their standard of living, and also, therefore, their future production.

The NRC and Professor Borjas use such words as "assimilation" and "capital adjustment" to describe the merging of immigrants into the economy. In fact, the process is one of appropriation of capital from natives, either by means of taxation or through diversion of capital. While the appropriation of capital for immigrants in housing, education, etc may be visible in extra taxation and council taxes, diversion of capital is less obvious, though it is no less powerful.

The diversion of capital investment occurs as capitalists re-rank the profitability of investments after immigration. Where increased returns are available because of immigration, some investment will be made in these areas and, therefore, some investment will not be made in the lower-return areas that increase native wealth or production. Of course, one reason why there are lower returns in some areas is that native wages and spending power have been depressed by immigration, so native workers who are in competition with migrants suffer not only from lower wages but also from diversion of capital.

This phenomenon is similar (though more accentuated) to that engendered by an increase in the native population of workers through increased fertility. It also suggests why the employment of non-workers in the native population (the unemployed, women workers, the retired) is so beneficial, as their employment is a pure gain, since, as dependants of the workers, they are already users of capital. The transfer of a person from being a dependant to a worker means there is an extra contributor to capital formation each year but no extra requirement for wealth use, except for the tools of production.

9. Up to now, the analysis has been largely static, with capital and wealth regarded as fixed. It is necessary now to look at the dynamic effects on capital and wealth.

Any arguments that migration benefits native workers centre on the increased returns to capital following falls in the wages of competing native labour, which create a fresh demand for workers and a new equilibrium, with higher levels of capital and employment (but not higher amounts of capital per head).

It should be noted that the leading American academics, such as the NRC and Professor Borjas, do not claim that the increased returns to capital will do any more than restore native wages to the pre-immigration level. In its second major study, entitled *The Immigration Debate*, the NRC stated: "We are not, of course, suggesting that immigration caused an improvement in real wages." This fits in logically with the NRC analysis quoted earlier, demonstrating that, once immigrants acquire skills and capital similar to those of the natives, the economy will simply enlarge pro rata.

This must be the logical conclusion.

Furthermore, the NRC states:

> As already mentioned, in the short run the influx of new labor is likely to depress the capital–labor ratio before it is restored through new investment. If the capital stock is disproportionately owned by native-born residents . . . then native-born owners of capital will benefit temporarily from higher returns to capital. Indeed, it is this higher return to capital that (in part) is thought to induce an increased volume of investment that ultimately restores the capital–labor ratio to its pre-immigration level.

The theory of capital adjustment makes it clear that money taken away from native workers is used to fund the capital required by immigrants. Capitalists are an intermediary in this process.

The argument that immigration benefits natives through the mechanism of capital adjustment has formidable hurdles to surmount. To start with, nearly all economic theorists believe migration in the short run, with capital fixed, reduces the earnings of natives and increases the return to capital.

In its study, the NRC outlines the mechanism by which migration restores the capital–labour ratio: by initially depressing natives' wages, increasing returns to capital, drawing in more capital, and thus establishing a new equilibrium. In other words, for native labour earnings to stabilize, they must first fall. This seems a wayward path. Nor is there much academic support for it. As the NRC reports: "The second key point—the impact of immigration on capital formation—has been left largely to assumption and speculation."

In any event, the capital adjustment process centres on restoring the amount of tools of production, not on total wealth.

To say that immigration benefits natives in Britain today, the following logical hurdles must be cleared:

(1) The immigrant must accumulate the same amount as the average wealth held by native workers. This figure, in 2004 in Britain, was estimated to be £141,000 per worker.

(2) The immigrant must then pay interest on the wealth appropriated from natives (or elsewhere) to support him for as long as it takes him to accumulate the requisite £141,000.

(3) He must then also match the further capital additions generated by native workers during the period when the immigrant is generating his stake capital of £141,000 (plus interest). (The native worker adds £2,235 per annum.)

(4) Only *then* does the immigrant reach a point of equality of contribution with natives. For him actually to benefit natives, he must generate a *further* increase in capital, *beyond* the native's yearly increase in capital that he must match.

There are two sources (excluding non-measurable costs and benefits) of an immigrant's contribution to wealth accumulation:

— savings by the worker out of his own wages directly or in the form of profits to the enterprise in which he is employed; and

— savings by capitalists out of the extra returns to capital, due to a fall in the wages paid to native labour.

By definition, the first of the sources of contribution (for the average worker) can only be item (3) above, less overseas remittances. So the whole burden of generating the remainder of the wealth required in items (1), (2) and (4) falls on the added return to the extra savings of capitalists, which, of course, are also reduced by the lesser savings now being made by native workers out of their reduced wages. (Workers are also capitalists in relation to their own savings, pension funds, etc).

Professor Borjas also notes:

> as the capital stock inevitably adjusts to the changed economic environment, the immigration surplus will tend to become smaller and smaller and, in the end natives may be neither better off nor worse off because of immigration.

So, for natives, the whole process of immigration means initial losses, immense dislocation, reduced production per head, a reduction in the standard of living due to wealth dilution, with the ultimate result that the capital–labour ratio is restored to its pre-immigration level—or, put another way, "as you were". This is not a good deal for natives.

10. Professor Borjas calculates that the 10% of the US workforce that is immigrant in 1995 would, in his central projection, generate an increase of 3% in the total income of capitalists in the USA at the expense of labour. Conveniently for calculation, this is approximately 1% of US GDP (capital takes about one third of US GDP).

If one transposes this extremely rough calculation to the UK, which also has an immigration labour force that totals 10% of the whole and a similar split in returns between capital and labour, 1% of the UK GDP in 2004 would be £9 billion. This is the amount workers lose to capital. Approximately 50% of capital's returns are used for capital formation, so, following Borjas, one could generally estimate the increased capital formation due to the immigrant-induced fall in native labour wages to be about £5 billion.

The target required for immigrant wealth to match native wealth is 10% of the total national wealth (remember, immigrants are taking care of the £2,235 annual increase required out of their wages and enterprise profits, unless they are making foreign remittances), which is £424 billion; at £5 billion per annum, this would take 85 years to reach—85 years to achieve equality with natives.

However, there are three further problems.

The first is a simple interest effect. It is clear that the interest effects on £424 billion alone would swamp the £5 billion capital formation.

The second problem is that, as Borjas points out, the immigrant surplus, which causes distribution from native wages to capital, shrinks as immigrants and their children take up native skills—in his example, the skills of US workers.

Third, as the immigrants become better equipped with capital (at £5 billion per annum) this also shrinks the immigration surplus and the extra returns to capital caused by immigration. As Borjas says, "the immigration surplus will tend to become smaller and smaller".

Simultaneously, there will be a fall in savings by native workers and this should be deducted from the amount available to generate capital adjustments.

The theory of capital adjustment by which the labour–capital ratio is restored is speculative and involves very long-term projections to recover initial losses and probably never does so. At best it restores the status quo ante. What is certain is that there is immediately a fall in native wealth and capital per head and, therefore, ability to maintain earnings and standard of living.

Anthony Scholefield
(This evidence is submitted on an individual basis)

Estimate

What should a migrant earn in the UK in 2007 to make a contribution to the economy?

Migration Watch calculates (Briefing Paper No 1.11) that the required income "to make a positive contribution to GDP per capita" is about £27,000 per annum (2006). Migration Watch is to be congratulated on making an estimate, and this study has followed its methodology in part.

The Migration Watch estimate is calculated in three parts:

1. The amount of UK GDP classified by National Statistics as "compensation for employees" in the year 2003 was £613 billion and there were 27.6 million workers. This gives average earnings per worker of £22,200. There is also earned income included in the category "mixed income", but this is ignored for these rough calculations.
2. This is then increased to 2006 rates by allowing three years of wage inflation at 4% per year, making roughly £24,850 per annum.
3. Migration Watch then allows a 10% margin requirement for the costs of additional infrastructure at £2,485 per annum, making £27,335. (Migration Watch rounds this to £27,000 per annum.)

All the income calculations seem reasonable, but a 10% margin for the costs of additional infrastructure is not realistic and there seems to be no basis for using this figure.

This study shows that a worker requires instant wealth of £141,000 on arrival (2004 figures), so the question is to determine how many years should be allowed to pay this off and, second, the rate of interest that should be imposed.

For this exercise, we have taken an interest rate of 3% and spread the cost of financing the instant wealth over a working life of, say, 35 years. These are, of course, assumptions only.

In order to do the calculation, we must first bring our wealth figure for 2004 up to date for the end of 2006. (It will be noted that this figure was originally at 2003 prices in the National Statistics tables.) So, three years of inflation need to be added to bring the £141,000 up to 2006 prices. This can be estimated at 9%, making the figure £153,600. There have also been two further years of capital additions, which, we will assume, were at the 2004 rate of 1.58% of wealth. These additions add a further, say, 3%, or £4,500, making total wealth per head at the end of 2006 around £158,000 in 2006 prices. We thus now have the total wealth at the end of 2006 in 2006 prices per worker.

Compound interest tables inform us that, to pay off £158,000 with an interest rate of 3% over 35 years, there must be a yearly payment of capital and interest of £7,300. So, instead of the £2,485 per annum estimated by Migration Watch, the real figure to be added to average earnings is £7,300. The income required to be earned by a migrant is, therefore, £22,200 (the average earnings in 2003) plus 12% wage inflation of, say, £2,650—which totals £24,850—plus £7,300: this equals £32,150. Looking at Inland Revenue taxation figures for 2004–05, the latest year available, 5,769,000 out of the 27,020,000 taxpayers who paid tax on earned income from employment and self-employment earned over £30,000 per annum (or 21.35% of taxpayers paying tax on earned income).[42]

So the calculation is that an immigrant would have to be in the top 20% of earners, with taxable earnings in 2006 of £32,150, for him to contribute to increasing the average per capita GDP of natives.

Should foreign remittances be made, these would have to be added to the above figure. We saw earlier that, in 2003, £3.8 billion was remitted abroad. This means the average remittance per immigrant worker is £1,247 per annum; £32,150 plus £1,247 makes a grand total of £33,397.

When considering family migration, a family of four requires £282,000 (in 2004) of instant wealth in the original calculation. The requirement for income is, therefore, £33,397 x 2 = £66,794, ie double what an individual worker requires.

These calculations leave out any fiscal costs, transitional costs and long-term national identity costs.

October 2007

Supplementary memorandum by Mr Anthony Scholefield

This submission addresses particularly question 8 in the Call for Evidence "As the UK population ages, does immigration affect the shortfall in pension funding?"

1. The terms used in this question need some definition. The UK population has been ageing since at least the last third of the nineteenth century as fertility began to fall.

It is not a new phenomenon.

Pension provision in the UK is partly public and partly private. Public pension provision is essentially supplied by current general taxation as no proper fund was ever set up following the establishment of old age pensions. One can recall Aneurin Bevan's remark that the great secret of the National Insurance fund was that there was no fund.

Private pension funding is effectively an individual's claim, via pension funds, on income and wealth in the private sector, possibly overseas.

2. In principle, the arrival of a migrant worker who works for the whole of his working life and claims a public pension will simply be the same as any other worker paying tax in his working life and drawing a public pension in his retirement years—all into and out of general taxation.

An immigrant's private pension arrangements depend on his contributions. If they are high, he will have a good pension. If they are low he will have a poor pension.

3. "The shortfall in funding" would appear to refer to the obligation of the government to pay for state pensions for an increasing number of pensioners in relation to workers, a change that has been going on since the old age pension was introduced. The question, therefore, is what's new—other than a greater burden on general taxation?

4. The shortfall in pension funding, as applied to private sector pension arrangements, refers to the fact that private pensions depend on the profits of the private sector.

If there are less workers in the private sector and more pensioners, then the pensions will, in principle, be lower but surely this is a matter for the private pension provider in calculating his offer to the pensioner.

[42] Source: Table 3.6 of Income Tax & Personal Incomes, Inland Revenue Statistics for 2004–05.

5. Two points are worth making. Diversion of workers from the private sector to the public sector reduces profits available for private pensions. The second point is that private pension funding is global and, for the next century, there will be no fall in the global workforce. There is, therefore, no reason why profits available to private pension funds should decline and in the global world there will be no shortfall in private pension funding for at least a century.

6. It should be noted that countries such as Norway and Singapore have established global funds as part of their public pension arrangements. Lee Kuan Yew refers to the necessity to establish proper inter-generational accounting in the public pension provision in Singapore.

7. There are, however, those who promote the idea that immigration will in some way mitigate the effects of population ageing and fund pensions for the existing population. As private pensions are essentially global, they are in particular thinking of public pension provision. Most of the continental EU countries of course rely on public pension provision.

The latest advocate is Franco Frattini, the EU Commissioner for Justice, who is to announce on 23rd October a directive on the admission of skilled migrants to the EU.

Frattini says in a speech in Lisbon on 19/9/07, that immigration is not "the" solution but only "a" solution to a decline in the workforce/pensioner ratio but also that "migrants are a crucial part of the EU's comprehensive strategy". Less moderate is the rapporteur in the European Parliament, Lily Gruber, an Italian Socialist who commented:

> "Our economies will not be able to survive without immigrant workers. By 2050 one third of the 490 million Europeans will be aged over 65."

Gruber's report menacingly recommended "Politicians at both EU and member-states' level must be able to act by going beyond purely electoral considerations and must adopt a comprehensive, integrated approach to immigration policy" and "emphasise the responsibility of the media in the dissemination of an accurate image of immigration and in countering stereotypes."

The idea put forward by Frattini and Gruber is called "replacement migration" and is a belief that a fall in the support ratio, that is the ratio between worker and pensioners, is bad, unprecedented, and, second, that immigration will mitigate or solve this.

8. Plainly the rise in the number of inactive or state supported people, whether pensioners or not, is a burden if the state regards it as an obligation to tax to support the inactive.

It always was and always will be. The question is—are we entering a phase where this is a new phenomenon? Second, will replacement migration change the support ratio in any meaningful way?

9. The population of the EU is ageing and will continue to age. This is hardly a new discovery since it has been going on since the middle of the nineteenth century.

Look at the historic figures for the increase in the number of over 65's.

	% over 65's to total population		
	France	*Germany*	*UK*
1851	6.7	—	—
1901	8.5	—	5.5
1950	11.4	9.7	10.7
1974	13.2	—	—
2005	16.4	16.7	16.1
2025 (forecast)	21.2	24.6	21.9
2050 (forecast)	26.7	31.0	27.3

Broadly speaking the percentage of over 65's in the total population has doubled in France between 1901and 2005 and nearly trebled in the UK. During this period there was no requirement for immigration to fill "skill gaps". The economy and society adjusted to the change. The rate of change is forecast to be slightly greater over the period 2005 to 2050. The change means that some of the economy's extra growth is diverted to increasing the amount transferred to the over 65 non-workers as it was between 1901 and 2005.

The over 60's present the following picture:

	% over 60's to total population		
	1936	*2005*	*2050 (UN estimate)*
Japan	7.4	26.2	42.3
Italy	10.9	25.2	42.3
USA	9.1	16.7	26.9
Germany	11.9	24.8	38.1
France	14.7	26.8	32.7
UK	12.9	21.4	34.0

The great surge in the over 60's in western countries has taken place and the adjustment has taken place already.

All countries must age at some point as life-expectancy increases. Otherwise we end up with the constant-fertility scenario as portrayed by the UN study "World population in 2300" where the world population is ten thousand times what it is now (134 trillion) and in some countries the population is standing on each others' shoulders.

In fact, countries as diverse as China, Turkey and Bangladesh are all ageing faster than the UK although from a lower age level. None of them are planning "blue cards" to attract "highly skilled" immigrants.

So the conclusion is that the EU is ageing, much of the ageing has taken place and has already been adjusted to.

10. The support ratio (of working age to over 65's) has already dropped dramatically and in the UK is now 4.09:1. Without immigration, the support ratio in the UK is projected to be 2.36:1 by 2050. We should note it was over 10:1 for 1901. To be precise, in 1901 it was higher than this as many over 65's in 1901 were at work.

11. Is this a problem? What are the solutions? Can replacement migration help?

If no over 65's worked, there would plainly be a greater burden on workers. In the same way, Britain would have a smaller burden today if it still had the ratio of pensioners to workers as it did in 1901.

12. However, there are plenty of other ways to improve the ratio of workers to pensioners. One source of labour is to encourage the over 65's to carry on working. Then there are the 5 million of unemployed and non-workers and social security claimants in the UK. The effect of the welfare state has encouraged the idea that the current workforce will be supported in retirement by a future workforce whereas true inter-generational accounting would make the current workforce provide for its own pensions in its working lifetime. This led to the tremendous savings of pre-welfare state Britain or of the current Far-East economies.

13. The idea of replacement migration, that is that Britain and the EU need immigrant workers to compensate for an ageing society, has been described by Anthony Browne, Director of the Policy Exchange think-tank, as "one of the most widespread and comforting self-delusions since humanity believed the sun went round the earth. It is the triumph of wishful thinking . . . over elementary demographics: immigrants are no fix for an ageing society because they age too."

Every reputable authority has pointed out that replacement migration will not work because immigrants also age. As put by Chris Shaw, the government actuary, in *Population Trends in Spring 2001,* "Despite much recent attention being focused on migration, it is clear that this is not a long term solution to the 'problem' of population ageing."

"The single reason why even large constant migration flows would not prevent support ratios from falling in the long term is that migrants grow old as well. Although a steady large flow of migrants would continue to boost the working age population, before long it would also start adding to the retirement-age population and a four-to-one (say) potential support ratio would not be maintained."

As put by Anthony Browne in his book "Do we need Mass Immigration", "The UN calculates that to keep the UK dependency ratio at 4.09:1 (as in 2000) the UK would need to have 59,775,000 immigrants by 2050, increasing the population to 136 million. At the end of that period, immigration would need to be running at 2.2 million a year, and still growing exponentially. To carry out this strategy of replacement migration, the UK would thus need to import another 130 million by 2100, doubling the population to about a quarter of a billion!" And so on, ad infinitum.

In other words the immigration would be huge and would mushroom indefinitely.

As for the EU, the UN has calculated that to maintain the ratio of pensioners to the working population, it would need to import 674 million migrants by 2050. Nor is that a solution because the 674 million will retire and need further migrants to support them.

14. Among the many organisations which have looked at and rejected replacement migration, perhaps the last word should go to the Home Office [*International Migration and the United Kingdom: Patterns and Trends* (2001)]:

> "The impact of immigration in mitigating population ageing is widely acknowledged to be small because migrants also age. For a substantial effect, net inflows of migrants would not only need to occur on an annual basis, but would have to rise continuously. Despite this and other findings, debate about the link between changing demography and a migration 'fix' refuse to go away."

15. Of course, Frattini says migration is only part of the solution—a partial "fix". His twenty million immigrants will be 3% of the 674 million the UN calculates are needed to maintain the support ratio and would change the UK support ratio from a projected 2.36:1 in 2050 to 2.43:1—a tiny change. Replacement migration is regarded with contempt by every expert and has the ability to unleash massive cultural costs and disruption throughout the EU but it has one great advantage for the Frattinis and Grubers—it is all part of Europeanisation.

As Frattini says, "If managed well, immigration is one area where our citizens will clearly see the added value of a European approach."

16. More sensibly, the UK government actuary recommends "measures such as raising workforce participation ratio or discouraging early retirement are likely to remain a more practical tool for increasing the working population", and "A long term TFR [Total Fertility Ratio] of 2.0 children per woman would produce much the same support ratio at 2100 as would annual net migration of half a million people a year (to the UK) but with a total population of 75 million rather than 120 million."

October 2007

Memorandum by the Scottish Executive

Introduction

1. The Scottish Government welcomes the opportunity to contribute to the Select Committee's Inquiry into the Economic Impact of Migration. This evidence paper will begin by providing some context, describing Scotland's demographic position, the role of in-migration within this, and the Scottish Government's attitude towards in-migration. It will then provide responses to some of the specific questions which the Select Committee has set respondees.

Context

2. The latest estimate of Scotland's population (on 30 June 2006) is 5,116,900—a rise of 22,100 on the previous year and an increase of 52,700 since 30 June 2001. This recent increase in Scotland's population has been driven by net in-migration which has more than offset the natural decrease resulting from the number of deaths exceeding the number of births. In mid-2006 18% of the Scottish population was aged under 16 while 19% was of pensionable age (60 and over for women and 65 and over for men) and the remaining 63% were of working age (16–59 for women, 16–64 for men).

3. In the 12 months to 30 June 2006, in-migration exceeded out-migration by 21,200. Scotland also experienced net migration gains in each of the three previous years with gains of around 9,000 in the year to mid-2003, 26,000 (the highest level recorded since current records started in 1952) to mid-2004 and 19,000 to mid-2005. In the year to 30 June 2006, around 53,300 people came to Scotland from England, Wales, and Northern Ireland and around 44,400 people left Scotland to go in the opposite direction resulting in a net gain from the rest of the UK of around 8,900.[43] About 42,200 people (including some asylum seekers) came from overseas and around 29,500 left Scotland to go overseas, giving a record net migration gain from overseas of around 12,700.[44] Migrants tend to be much younger than the general population with 48% of migrants from the rest of the UK and 68% of those from overseas aged 16–34 compared with 24% of the resident population.

4. The latest population projections are based on the estimate of Scotland's population at 30 June 2004. These projections, based on existing trends and making no allowance for the impact of government policies and other factors, show the total population of Scotland rising from 5.08 million in 2004 to 5.13 million in 2019 before falling to 5.07 million by 2031. Longer term projections for up to 40 years ahead show a continuing decline

[43] Note that the movements between Scotland and the rest of the UK and overseas will not sum to the total net migration as they exclude unmeasured migration and rounding adjustments.

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