

Why immigration can lower living standards and hurt the lowest paid

Anthony Scholefield takes issue with current attitudes towards the economic impact of immigration

Eurofacts' leading article "Should Britain admit a new wave of EU immigrants?" (26th May) makes many relevant points, but it also repeats some of the more questionable claims advanced by Tony Blair on this subject.

If there is to be an informed debate on the issue the argument that the arrival of Eastern Europeans 'undeniably brings a number of economic benefits' needs to be exposed to critical scrutiny. In particular we need to examine very carefully the claim that the immigration relieves labour shortages and pressure on pay levels and thus contributes to economic growth while helping to ease inflation.

Reduced Productivity

Tony Blair stated in his CBI speech in April 2004 that *'according to the Treasury, our economic growth rate would be almost 0.5 per cent lower for the next two years if net migration ceased'*. So what? Immigration increases the size of the labour force and must, therefore, increase the size of national income. But what matters is income per head and most of the extra income generated by immigration by necessity accrues to immigrants.

Economic theory suggests that mass immigration of labour without capital equipment must reduce productivity and, therefore, income per head. It should be noted that Britain's growth in total GDP in 2005 was 1.75 per cent but the number of Eastern European immigrants alone was about 200,000; on top of this there were a further 100,000 working immigrants from elsewhere, so total immigration amounted to at least 1 per cent of the British workforce of 30 million. Thus, the real growth in the economy is only 0.75 per cent. It is time eurosceptics woke up to the fact that a good deal of recent British 'growth' is simply the

consequence of a larger workforce.

The argument, also made by Tony Blair in his CBI speech, that *'there are half a million vacancies in our job market and our strong and growing economy needs migration to fill these vacancies'* betrays ignorance about how labour markets work. Since he made that speech there have been well over half a million immigrants - but there are still half a million vacancies.

This is understandable since immigration creates as many new jobs as it fills. Immigrants are not only workers, but also consumers and so add to demand. The fallacy perpetrated by Mr Blair - and apparently accepted by *eurofacts* - rests on the 'lump of labour' fallacy; the idea that there's a fixed amount of work to be done.

How does a free labour market work? The supply and demand for labour tends towards balance through the mechanism of fluctuating wages. As Professor E.J. Mishan remarked *'this policy of importing labour in order to meet an emergent shortage in any occupation, however, overlooks the fact that in any properly functioning economy, continual changes in the pattern of demand and supply unavoidably create initial shortages in the supply of some goods and an excess supply of other goods - and, therefore, a shortage of labour in some occupations and an excess in others. Yet the market economy is able to cope. ... through adjustments to the prices of labour in the affected occupations'*.

Or, as Dr Michael Teitelbaum put it in evidence to the USA Congress, *'[To attract] native workers, the employer may have to increase his wage offer. ... so when you hear an employer saying he needs immigrants to fill a 'labour shortage', remember what you are hearing is a cry ... to allow the employer to avoid the normal functioning of the market'*.

Mr Blair takes it for granted that immigration is a good thing because

British workers are unwilling to do many of the jobs on offer *at the wages on offer*.

All these efforts to get workers at below their true market rate must involve either maintaining a permanent helot class of people paid below their market rate or involve further immigration to fill low paid jobs as the previous batch of immigrants try to move up the wage scale.

Cheap Labour

As Peter Lilley put in his CPS pamphlet, "Too much of a good thing": *"It is amazing that a Labour government should be prepared to use the reserve army of Third World labour to depress the living standards of the lowest paid British workers to provide cheap labour for the better off"*.

It is also amazing that the Church of England, the Conservative Party (which, in its 2005 Manifesto wittered on about how immigration results in 'economic vibrancy') and the Lib Dems should all applaud a state of affairs which damages the worst paid workers in Britain.

There is a further point in which is often overlooked. Immigrants to Britain come without capital equipment or capital backing. (This, of course, did not apply to European immigrants to the New World or, for that matter, Han-Chinese moving to Tibet.) This means that there are more workers for the same amount of capital in existence and, therefore, that output per head must be lower. Immigration reduces Britain's capital-labour ratio and, therefore, its per capita real income. No wonder we are falling behind the Germans. For a long time a portion of the country's savings must be absorbed in providing capital equipment for the newcomers. Furthermore, immigrants - and this especially applies to those from

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Immigration can lower living standards

Eastern Europe - are here to send money back home. This means that they are depleting savings in Britain and they are providing little or no contribution to forming the capital equipment that is necessary to bring the capital-labour ratio up to the level prior to their arrival. Over a long period and this may include generations, the savings and capital formation in the UK among immigrants may approach the level of the British and then will grow in line with the British rate. But at any future date Britain's capital-labour ratio will certainly be smaller than it would be in the total absence of immigration. As one would expect, the Bank of England now confirms slowing productivity growth (*Quarterly Bulletin*, Spring 2004) which arises from this basic point.

The only situation in which these arguments would not apply would be

one in which machinery was standing idle for lack of workers. With its high hidden and actual unemployment, this is not Britain's position.

Finally, one should say a few words about the effect on the finite economic factor - land. This will rise in price as population increases. This affects house prices and goods' prices generally which entails a reduction in per capita income together with environmental degradation and pressure on water and amenities. This is already evident in South East England. It is worth being a land owner under Labour.

There are no good reasons for stating that, in a perfect market economy, the mass immigration of workers without capital increases average GDP per head but plenty for thinking that it reduces it while redistributing income away from labour to capital and land. Even Mark Kleinman, for the left-

leaning IPPR, has stated *'There is not a compelling long-term case for increased immigration in terms of economic benefits'*.

The 1985 Canadian Royal Commission summed it up *'The broad consensus ... is that high levels of immigration will increase aggregate variables such as labour force, investment and real gross income but cause ... real wages to decline'*. On the distribution of income, the Home Office report of 2001 "Migration: an economic and social analysis" put it: *'In general, immigration increases the supply of labour. This is likely, in theory, to reduce wages for worker competing with migrants, and increase the returns to capital and other factors complementary to migrant labour'*. Maybe the Home Office got it right for once.

What has happened to democracy?

It is indeed its fatal lack of democracy which is the EU's Achilles heel. We need to remember that the EU was never intended by its founders to be a democratic organisation. It was always intended to have civil servants rather than elected politicians holding the real power. That is why, now just as much as fifty years ago when the first institutions which have transformed themselves into the EU were established, it is only civil servants in the Commission, not elected politicians, who can propose

legislation. Unfortunately, the EU, like every other organisation, is not immune to the influence that power without accountability always has on inducing and encouraging policies among those in power which suit their immediate advancement. The result is that they lose touch with those they are supposed to be representing, while self-seeking behaviour at best and corruption and fraud at worst steadily become more endemic. The way that the Constitution is being implemented without democratic consent is all part

of this pattern, for the new policies that are being put in place hugely increase the power, influence and rewards of those who are in charge of EU policies. The reason that these policies are going ahead is not because they are what most people in the EU Member States want to see being done. It is because those who run the EU are in a position to pursue them, to their own advantage, irrespective of democratic opinion which they believe they can safely ignore. Labour Euro-Safeguards Campaign Bulletin, May issue.

Pan-european vote 'best way to save Constitution'

The head of the outgoing Austrian EU presidency, Chancellor Wolfgang Schussel, has urged member states to back plans for a pan-European referendum as the best means to revive

the stranded EU constitution.

In an interview with Germany's *Bild am Sonntag*, Mr Schussel said "I can well imagine a referendum that takes place simultaneously in all EU states.

The constitution would be accepted if the majority of the European population and a majority of states approve it".

Vote until you get it right - Giscard

"Manipulators tell you: 'We cannot vote again'. What is this joke? We have to vote again until the French see what the stakes are", Giscard D'Estaing, Agence Presse, 12th June, 2006