



Will an immigration cap raise taxes and cut growth?

Summary

1 No. Because the availability of labour is not a significant restraint on growth and will not be so for some time.

Introduction

2 An article in the Financial Times on 18 June[1] claimed that "David Cameron's proposed cap on immigration will stunt economic growth and cost families around £300 a year in higher taxes or lower public spending, according to the governments own forecasting models". This note examines their claim.

Detail

3 The article implied that the pre-budget report from the Office for Budget Responsibility (OBR)[2] had made some new projection of immigration. In fact it had not. It simply adopted the Office for National Statistics (ONS) 2008 based low migration variant. Over the five year period that the OBR were considering this is not unreasonable since immigration normally falls during a recession only to resume its upward trend when growth returns[3].

4 The workings behind the claim were explained in a blog[4]. The authors calculated that a reduction in immigration to the 1990s average of 60,000, as the government seek to achieve, would reduce the post 16 population by 0.2% per year *and* that this would have a similar effect on growth.

5 This analysis is faulty for two main reasons:

a) Only a minority of immigrants come to Britain with a definite job or looking for work. In 2008 only 37% of gross arrivals came here for the purposes of work[5].

b) The calculation assumed that over a five year period the growth of output will be entirely constrained by the growth of population over 16. Thus, if immigration adds an extra 1% to the population over 16 it will automatically increase national output by 1%. This is a very peculiar assumption to make during an economic recession when there is a large surplus of domestic labour available for work. The constraint on output growth is currently not a shortage of labour but a shortage of demand and too little investment. This is likely to be the case for some time to come.

6 As for the implications for government revenues, the blog did not spell out the methodology used. However, in an update to the blog, the authors admitted that theirs was "a simple calculation" using the governments own economic forecasting model. They added that "the story is certainly not a cost/benefit analysis of immigration". That is clearly an understatement. The extra population will need schools, hospitals and housing and, as they grow older, will claim pensions and the like.

7 In any case, the issue should be seen more widely. The government is hoping to move large numbers of people off benefits and into work. This will be much easier to achieve if employers are denied and easy supply of relatively cheap migrant labour.

Conclusion

8 On closer inspection, the story simply does not stand up.

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NOTES

- 1 <http://www.ft.com/cms/s/0/26b3f79c-7a72-11df-9cd7-00144feabdc0.html>
- 2 http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf
- 3 <http://www.migrationwatchuk.org/briefingPaper/document/23>
- 4 http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf
- 5 <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=15053>