



ITEM CLUB ON “BENEFITS” OF EAST EUROPEAN IMMIGRATION

Summary

1. This report only addresses 1/3 to 1/4 of foreign immigration. It assumes that the workers have no dependants. Even so, it finds only a very small benefit to the host community of about £1 per head per week. A small allowance for dependants reduces this to zero. The main effect is to hold down wages which, of course, is to the benefit of employers and the middle classes but not to the working classes. Indeed, the Treasury model shows an increase in unemployment of 50,000 over the period. In effect, this means that 50,000 British workers will lose their jobs. On closer examination, it is very hard to see why the report concludes that "we are looking at a very favourable cost benefit ratio".

Introduction

2. The ITEM Club spring economic forecast contained a section on the "benefits of the new immigration" from Eastern Europe. According to the press release, "we are on the crest of a new immigration wave...the steady flow (from Eastern Europe)...has proved remarkably positive for the economy, keeping interest rates ½% lower than they would have otherwise have been". It continued "as a direct result the UK workforce has become younger, more flexible and economical, easing the pensions burden and keeping interest rates lower than many commentators would have predicted. Even with a modest rise in unemployment numbers we are looking at a very favourable cost benefit ratio". This paper examines those claims.

The ITEM club report

3. The ITEM Club study addressed only immigration from Eastern Europe but this is only a fraction of net foreign immigration which was 342,000 in 2004. According to the Office for National Statistics (ONS), only 48,000 of that number were from the new accession countries. The study assumes (probably correctly) much larger numbers from Eastern Europe in the subsequent three years - namely 120,000, 100,000 and 80,000 (measured Q3-Q3) thus giving a total addition of 300,000 or 1% of the UK labour force. Thus the immigration which they are considering is only about 1/3rd to a 1/4 of net foreign immigration. The report is silent about dependants, presumably it assumes that all those concerned are workers.

4. The report notes the advantages of this group of immigrants resulting from their wide dispersal around the country and across a range of industries. It remarks that the largest number are in

administration, business and management which it regards as "certainly contradicting" the impression that workers come to the UK to take up low skilled occupation. In terms of pay, however, the Workers Registration Scheme shows that 80% of East Europeans are earning less than £6 an hour.

5. The report suggests that this inflow from Eastern Europe explains how despite an increase in unemployment last year, employment continued to rise strongly by about 0.5%. They suggest that this also helps to explain the low level of UK business investment since bottlenecks can more easily be eased by importing skilled workers than by capital investment. There is also a reference to anecdotal evidence that UK employers are "finding ways to replace elements of their current work force by this labour".

The Treasury model

6. According to the Report, feeding these work force numbers into the Treasury model shows that, in the short run, "unemployment rises and capital intensity and labour productivity fall".

7. The report describes the most striking feature of the simulation as "the downward pressure the new workers exert on real wages which helps keep interest rates lower than would otherwise be the case". Nevertheless, it is six years before the actual addition to GDP reaches 0.8%.

Other points

8. The press release, but not the report itself, claims that East European immigration will rejuvenate the British work force and "ease\ the pensions burden."

Comment

9. The real weakness of the paper is that it fails to take account of the addition to the population of 0.5% represented by 300,000 additional workers. Even on the report's own assumption that there are no dependants (highly unrealistic) this reduces the net benefit to the host community to 0.3% of GDP or approximately £1.40 per head per week. Similarly, the small fiscal gain, put at around 0.1% of GDP, would certainly be outweighed by the extra costs of housing, transport and health - even more so if some allowance were made for dependants.

10. As regards the other claims, the average age of the UK working age population is 39 and that of the East European migrants is about 28. Thus its impact on rejuvenating the British workforce is to reduce its average age by about a month. As for "easing the pensions burden", the Turner Commission on pensions dismissed this argument.

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