AN ASSESSMENT OF THE HOUSE OF LORDS REPORT ON THE ECONOMIC IMPACT OF IMMIGRATION TO THE UNITED KINGDOM

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Since the mid 1990s economic immigration policy in the United Kingdom has been transformed from being one of the most restrictive in Europe to being among the most open-ended. This shift has coincided with increasing public dissatisfaction with immigration policy. In April 2008 the House of Lords Select Committee on Economic Affairs published a report on immigration's economic effects. It found—contrary to the assertions of the Labour Government—that recent immigration flows have not produced significant economic benefits. Despite the unequivocal and rather damning conclusions of the report, it is unlikely to produce any major shift in government policy.

INTRODUCTION

On 1 April 2008, the Select Committee on Economic Affairs of the UK House of Lords handed down the findings of its review, *The Economic Impact of Immigration*. Its brief was to assess whether or not the immigration policies of the Labour Government have produced a net economic benefit. The House of Lords report concludes that there is 'no evidence for the argument, made by the government, business and many others, that net immigration—immigration minus emigration—generates significant economic benefits for the existing UK population'.¹

The report comes on the back of a decade of substantial reform in UK immigration policy, which has made immigration a volatile and paramount topic. As the report states: 'immigration has become one of the biggest public policy issues in the UK [with] net immigration ... reaching a scale unprecedented in our history'.2 Indeed, since the mid-1990s, the UK has gone from having one of the most restrictive economic immigration selection regimes in western Europe to one of the most liberal. Perhaps owing to the current salience of immigration in the UK, the findings of the report were highly anticipated and its unequivocal, pointed conclusion generated front-page press coverage. The media response was characteristically contrary: a headline in The Independent, a left-leaning daily newspaper, alleged the report to be 'malicious, misguided and badly misinformed', 3 while the more conservative *Daily Express* claimed the report showed that 'a once great nation is being ruined by its own government'.⁴

This article will provide an assessment of the House of Lords report into the economic impact of UK immigration. It is structured as follows. An overview of developments in UK immigration policy over the past decade will be provided by way of context. Detail of the contents of the report and the official response by the government will then be given. The remaining sections will evaluate the significance of the report's conclusions, seek to comprehend whether the report represents a new phase in the debate around the subject, and assess whether it could foreshadow a reorientation of government policy.

RECENT DEVELOPMENTS IN UK IMMIGRATION POLICY

Until recently, the UK had one of the most restrictive policies on economic immigration—that is, immigration primarily for employment or business related purposes—in western Europe. Problems with 'race relations' in the 1960s had led to the UK's economic routes of immigration being curbed long before the oil crisis of 1973,

wnich was the predominant catalyst for western European states closing down their guest worker programs.⁵ Selection policies for economic immigrants remained tight for the next three decades.

Writing in the mid-1990s, Freeman observed that the UK immigration debate was 'obsessively' focused on 'controlling numbers and dealing with racial tensions ... immigration policy seems to be the work of a responsible political elite that veers from time to time toward populist manipulation of racial issues. It is a thin line between responding to a fearful public and exploiting their anxieties'. 6 This tendency extended to policy around economic immigration. A stated policy objective of the Major Conservative Government from 1990 to 1997 was to minimise inflows to the 'irreducible minimum',7 with very little scope for foreign nationals to immigrate through economic or labour avenues. As Somerville puts it: 'of all liberal democracies', the UK had by the mid-1990s 'succeeded in restricting immigration where others had failed'.8

Against this background, the changes in UK immigration policy since the election of Labour under Tony Blair in 1997—from a policy of 'zero immigration'9 to one that has sought to attract high, moderate and lower skilled migrant workers in large numbers—have been remarkable. The first sign of a policy shift came in the late 1990s when labour shortages, fuelled by consistent economic growth, prompted a steady increase in the number of work permits granted to foreigners. 10 By the early 2000s, continued economic buoyancy led the government to re-evaluate its entire immigration policy apparatus, with a series of liberal initiatives soon introduced to attract more foreign labour.

In 2000, work permit regulations—such as work experience requirements, the limit on the tenure of permits and some labour market testing provisions—were loosened

in order to make permits more responsive to labour market demand. 11 Two years later, a series of initiatives were introduced to attract both high and lower-skilled workers. The Highly Skilled Migrant Programme, established to attract young workers with postgraduate qualifications, experience and high earning capacities, also provided a route to permanent settlement. At the other end of the labour market spectrum, a new Sector-Based Scheme addressed shortages in hospitality and food manufacturing, and the quota for the longestablished Seasonal Agricultural Workers Scheme was raised by 150 per cent.12 Reforms lifting working restrictions for foreign students and working holidaymakers were also introduced in 2004.13

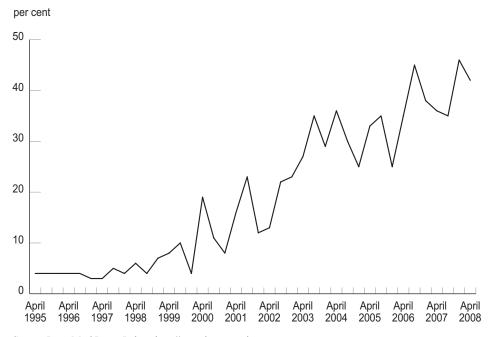
Perhaps the most significant initiative came in May 2004, when the European Union (EU) expanded its membership to eight central and eastern European states (commonly known as the 'A8' states), along with Cyprus and Malta. The existing 15 member states of the EU were allowed to limit the right of workers from the new member states to work until 2011, when any remaining restrictions would be removed. Unlike most other western European members of the EU, the UK opted to remove restrictions immediately.14 As a result, some 580,000 central and eastern Europeans came (or in the case of those illegally residing, registered) to work in the UK over the ensuing two years.¹⁵ This represented 'almost certainly the largest single wave of immigration that the British Isles have ever experienced'.16 Unlike policies implemented prior to 2004, which largely (though not exclusively) sought to attract immigrants to higher skilled occupations, many of the A8 immigrants to the UK found employment in lower skilled work.¹⁷ When the EU further expanded in January 2007 to include Bulgaria and Romania (the 'A2' states), existing member states were again

given a seven-year window to phase out any restrictions on A2 workers. The UK adopted a different position to the one it took in 2004 and limited the right of nationals from these states to work to a few specific sectors.¹⁸

The decision to restrict A2 nationals from working in the UK was largely reflective of the political sensitivities that had arisen around economic immigration.¹⁹ Since Labour was first elected to office, public discontent with the government's handling of immigration has steadily increased. As seen in Figure 1, the number of Britons rating immigration and race relations as the most important issue facing the nation today went from three per cent in 1997 to 46 per cent in 2007. The rise in the early years of the Blair Government coincided with heightened salience around asylum, rather than economic immigration. A near tripling of asylum applications between 1997 and 2002 prompted then Prime Minister Blair to pledge in 2003 to halve the number of asylum seekers within a year, a promise that was ultimately fulfilled. Further spikes in public concern accompanied the 2004 decision in relation to A8 workers. This decision can partly be explained by the government's gross underestimation of the magnitude of immigration from the new EU member states.

In 2003, a report commissioned by the UK Home Office forecast the size of net immigration from the new EU member states (the A8 plus Cyprus and Malta) to be between 5,000 and 13,000 immigrants per year. These figures were accompanied by two important caveats: the authors acknowledged that the projection was underpinned by unreliable data and they assumed that other western European states

Figure 1: Percentage of respondents citing immigration and race relations as the most important issue facing Britain today, 1995 to 2008 (selected months)



Source: Ipsos Mori Issues Index http://www.ipsos-mori.com

would rully open their labour markets to A8 nationals at the same time.²¹ However, as the UK was the only major economy not to initially impose restrictions on the rights of A8 nationals to work, the influx of immigration was substantially larger than anticipated.

When the government deliberated over the next expansion of the EU two and a half years later, the consensus from ministers and organised business that had greeted the decision on A8 expansion had evaporated. The stance of the Confederation of British Industry (CBI), the largest employer group in the UK, reflected that of the broader business community. The CBI had hitherto been a supporter of the government's liberal immigration policies, and had particularly lauded the positive impact of A8 immigration, but it did not support open access for A2 nationals because of the 'potential implications for the social fabric of this country'.22

By the end of Tony Blair's tenure as Prime Minister, the government was feeling the effects of a backlash against the liberal economic immigration policies that it had progressively implemented over the previous decade. Opinion polls showed that immigration continued to rate highly as an issue of public concern. As Spencer writes, the government's 'positive language on the benefits of migration ... was being overtaken was the language of harm'.23 Indeed, shortly after becoming Prime Minister, Gordon Brown made an unrealisable pledge to 'create British jobs for British workers'.24 It was in this context that the House of Lords Select Committee on Economic Affairs in July 2007 instituted the first major public inquiry into the economic impact of immigration.

MAIN COMPONENTS OF THE HOUSE OF LORDS REPORT

The Select Committee on Economic Affairs ('the Committee') is one of the five perma-

nent investigative committees of the House of Lords. It is made up of 13 peers, who are appointed to the Committee by the House of Lords at the beginning of each parliamentary session. The Committee includes in its ranks two former Chancellors of the Exchequer who served in the Thatcher and Major Governments (Lord [Douglas] Hurd and Lord [Norman] Lamont), a former governor of the Bank of England, a number of eminent economists and two former cabinet ministers, amongst others. It typically conducts around three to five inquiries per year into economic matters of contemporary significance, from which policy recommendations are usually made to the government.

In reviewing the economic impact of the government's immigration policies, the Committee made its evaluation largely on the basis of written and oral evidence from academic experts, think tanks, government departments, stakeholders and interest groups. The most consistent theme arising out of the evidence presented to the Committee is that the economic impact has been somewhat mixed and unclear, but nonetheless relatively minor. The Committee based its assessment on the three main arguments that the government has used to justify its policies: immigration delivers economic benefits through increased economic growth; immigration produces fiscal benefits; and immigration is required to fill gaps in the labour market that cannot be filled by the resident population.25

The thrust of its findings, more or less reflected in the evidence presented to the Committee, is that there is no evidence that net immigration has produced significant economic benefits, with any returns being at best minimal. The report therefore takes issues with the government's assertion that its immigration policies have had an indisputably positive economic impact. It argues that, while government policy may

generate benefits for employers, these have not necessarily translated across the economy. The authors write that, instead of serving 'the exclusive interest of employers', 'the primary economic consideration of UK immigration policy must be to benefit the resident population'.²⁷

The report argues that the contribution of immigration to overall gross domestic product (GDP), used by the government to justify its policies, is an 'irrelevant and misleading' measure, because it is simply an indicator of the size of an economy rather than the extent of individual prosperity. The Committee claims that GDP per capita is a more accurate criterion of the economic impact of immigration which, by this gauge, is marginal.²⁸ The report also says the fiscal impact is not as unambiguously positive as the government has asserted. Furthermore, the oft-cited argument that immigration is needed to defuse the welfare burden likely to be imposed by an ageing population cannot be accepted, according to the Committee, because immigration only adds more prospective retirees.

The Committee finds that there is a 'clear danger' that immigration limits training opportunities for resident workers and it is particularly critical of arguments that justify higher immigration as a means of labour market complementation.²⁹ It says that while various people—including Tony Blair—have argued that immigration is needed to fill labour shortages, the number of job vacancies has remained constant since 2001. Therefore, 'because immigration expands the overall economy, it cannot be expected to be an effective policy tool for significantly reducing vacancies'.30 Furthermore, 'employers' expressed "need" for immigrant labour is often a demand for labour that can be employed at current rates of pay, rather than at higher wages that are generally necessary to attract labour in a competitive market. Immigration keeps labour costs lower than they would be without immigrants'.³¹ The Committee says that this is particularly the case with the incomes of lower waged workers, upon which the impact of immigration is slightly negative.³²

The report also finds that the rising population density accompanying increased immigration has placed greater strain on the housing market.³³ However, despite noting that immigration has accounted for the majority of growth in the UK population over the past 15 years, it barely mentions the environmental impact of immigration and the implications of projected future immigration inflows in this regard.³⁴ The report makes no comment about the potential implications of the EU Emissions Trading Scheme for greenhouse gases, which the UK is part of, for population and immigration policy.

The report concludes that because the economic benefits of immigration are minimal, the focus of government policy should be on assessing how much net immigration is desirable. It argues this should be achieved by also taking 'noneconomic considerations such as impacts of cultural diversity and social cohesion' in account. A series of recommendations are made as to how this objective could be better met: the introduction of an 'explicit and reasoned indicative target range' for net immigration; the consideration of English language competency as a core requirement for entry on the grounds that such competency is a major determinant of individual labour market success; better enforcement of wage and employment standards: the introduction of effective methods for measuring immigration inflows and outflows; and a call for the government to justify the objectives of its policies and demonstrate how they relate to domestic skills development.35

The report acknowledges that the government's hands are somewhat tied in its ability to control inflows, with the UK

naving certain legal obligations to permit entry to nationals of European Economic Area states, ³⁶ the dependents of UK citizens and permanent residents, and asylum seekers and refugees. As the report notes, immigration flows to the UK, as elsewhere. have to some extent been a case of unintended consequences.³⁷ However, while laws regulating entry criteria are not the sole determinant of immigration flows, the Committee says that the size and character of recent immigration have been fundamentally shaped by government policy decisions.³⁸ It claims that the much greater than anticipated influx of A8 workers reflects the 'seriously inadequate' data on migration flows, which requires urgent improvement because it is undermining the government's credibility.³⁹ This sentiment was best captured by one of the peers on the Committee as quoted in the Daily Telegraph: 'The more we looked at the flawed statistics, the more we felt the government is flving blind immigration'.40

THE GOVERNMENT'S REPLY TO THE HOUSE OF LORDS REPORT

Two months after the publication of the House of Lords report, the government produced an official response attempting to counter the Committee's claim that immigration has not produced significant economic benefits for the UK. The government argues that overall GDP growth is not an irrelevant criterion for measuring the impact of immigration, with the contribution of immigration to GDP roughly equalling that of the UK agriculture and fishing industry. However, the government does concede that 'GDP per capita growth must be the principal determinant of success' in evaluating the economic impact of immigration.41 Nonetheless, it challenges the Committee's assertion that the impact of immigration on GDP per capita is insignificant, citing new data showing that immigration has increased GDP per capita of the resident population by 0.15 per cent of the total 2.4 per cent average annual growth in this measure between 1997 and 2006. The government cites figures showing that immigration has a positive fiscal impact and an overall positive effect on wages, though it does admit that there is some negative impact for lower paid workers. ⁴² It also claims that increased immigration has led to a better matching of skills with the right jobs, leading to job growth among UK citizens and 'enhancing the labour market's ability to respond quickly to capacity constraints'. ⁴³

The government responds positively to some of the report's recommendations, saving that English language requirements. better enforcement of wage and employment regulations and greater investment in skills are incorporated in its broader policy agenda.44 However, the government rules out imposing an annual quota or cap on immigration inflows, claiming that its new points system is a more effective device than 'an arbitrary cap on numbers picked out of thin air [that] simply risks denying Britain access to skills and ideas as and when they are needed—thereby damaging the ability of the economy, the labour market and business to function in a flexible way'.45 It should be noted, however, that the Committee does not in fact call for the introduction of a quota or cap on immigration, but rather an indicative target range.

ASSESSMENT OF THE REPORT'S IMPACT AND FINDINGS

After its publication, Sir Andrew Green of MigrationWatch UK—a self-styled thinktank that has been consistently critical of Labour's immigration policies—claimed that the House of Lords report represents 'a watershed in the debate on immigration'. 46 Indeed, the report is the first comprehensive deconstruction of the La-

pour Government's case in defence of its immigration reforms, at least from a source not widely seen as partisan. Before this report, the most prominent voices of criticism against government policy were Migration-Watch UK and right-leaning tabloids such as the Daily Mail and The Sun, voices that do not carry the same impartial legitimacy as the House of Lords. As conceded by an editorial published in The Guardian, a leftleaning newspaper largely supportive of the government's immigration policies, 'The House of Lords remains a powerful brand signifying privilege, independence and authority'. 47 If the extent of press coverage of the report is any measure, this 'powerful brand' has helped realise the Committee's call for 'a comprehensive debate about the economic, social and cultural impacts of immigration'.48

In substantive terms, however, the significance of the report is less apparent. While it damns the weakness of the case made by the government in support of its policies and does not agree with the claim that immigration has delivered significant economic benefits, the chairman of the Committee, Lord Wakeham, emphasises that 'we did not find large [economic] losses, and we recognise the valuable contribution migrants make'. 49 This seems to suggest that the report is not overly critical of current policy per se, but rather of what it argues are the government's unfounded assertions of the benefits of immigration. As The Economist argued, 'this was not, all in all, a bad-news report. But the problem for the government is that it has relentlessly made the case that the economic benefits of migration are vast, in order to buy off those who don't like its social effects', 50

Furthermore, the main practical reform to current policy that the report recommends—aside from those the government claims to be in the process of implementing—is for a target range to be introduced for non-EU economic immigrants entering under work permits (the report implies that highly skilled workers should perhaps be exempted from such a target). In 2006, work permits made up 21.5 per cent of total labour immigration inflows to the UK⁵²—a figure that would be much lower were family immigration and refugee/asylum flows factored in—so the main recommendation of change to existing government policy relates to only a small proportion of the overall inflow.

A consistent theme through the House of Lords report is that UK immigration policy has produced various winners and losers, with employers and newly arrived immigrants being the most evident winners. This may well be the case, but the report fails to consider what the UK state might have gained from its own immigration policies. While organised business has been a key supporter of the government's policy agenda, its endorsements have been more passive than active. Instead, the government itself has been the critical agent for change.

One way in which this has been evident is through the 'managed migration' agenda introduced by then Home Secretary David Blunkett in 2001. Although designed in part to attract skilled workers who would bring benefits to the UK economy, managed migration also aimed to open up legal economic immigration channels as a way of undermining illegal routes of entry, routes which had hitherto been difficult for the government to police.⁵³

Equally important is the way that key government actors—particularly economic institutions such as the Treasury and the Bank of England—have sought to use immigration policy as an instrument to help meet the government's broader labour market and macroeconomic objectives.⁵⁴ In this regard, there is some evidence to suggest that immigration has produced economic benefits in ways not considered by the Committee, particularly by helping

to complement the domestic skills base and contain inflation. The government has not actively promoted the benefits that immigration has brought to these areas, perhaps because it has reason to be cautious about the implications of these benefits. Immigration has provided a steady supply of labour that has been required largely due to deficiencies in skills policy and it appears to have helped contain inflationary pressure by preventing wages from rising higher than they would have otherwise.

This points to the most glaring oversight of the report: its failure to consider the reasons for the abrupt liberalisation of UK immigration policy in the first place. The report does not contemplate why a nation with such a restrictionist legacy has opened up its economic immigration channels more than any other state in western Europe in the space of less than a decade.55 The low level of unemployment that has arisen out of consistent economic growth is one reason why this has occurred. This has been compounded by the relatively liberal nature of the UK economy and labour market institutions such as skills policy accentuated by the economic reforms of the 1980s and 1990s—which have generated a need for alternative sources of labour supply, such as through immigration.

IMMIGRATION AND SKILLS

A key shortcoming of the House of Lords report thus relates to its arguments regarding the relationship between immigration and domestic skills policy. The Committee claims that encouraging inactive or unemployed residents back into the labour market is a better solution to skills shortages than immigration and can be achieved through measures such as greater investment in training. For As well intended as this recommendation may be, it overlooks the chronically deficient nature of the UK skills base.

The UK's 'historical failure in training

and skills means that implementing an effective skills policy is easier said than done.⁵⁷ Successive governments, both Labour and Conservative, have failed to seriously address the limitations of the nation's skills base. A lack of political will is a contributing factor to this. But an influential study by Finegold and Soskice published two decades ago found that a range of reinforcing structural attributes of the UK's liberal economy act seriously impede the creation of an effective training policy. For instance, decentralised industrial relations arrangements mean that industrybased training initiatives are difficult to establish or coordinate. This problem is reinforced by the reluctance of governments to sanction compulsory training, due to a belief that companies should be left to determine their own arrangements. This 'orthodoxy of voluntarism'58 means that the onus of skill development rests on individual employers, who are disinclined to invest too heavily in training lest other companies poach their employees. Furthermore, the prioritisation of short-term returns by UK financial markets acts as a bulwark against companies investing in assets—such as skills—where the returns may not be immediately apparent.⁵⁹

The evidence suggests that this scenario has improved little over the past 20 years. A 2006 report on skills by Lord Leitch for the UK Treasury found that 'the UK's skills base remains mediocre by international standards'.60 Taylor argues that, 'among advanced industrialised nations', the UK continues to suffer 'from a particularly chronic lack of workers equipped with recognisable and adaptable skills', particularly when assessed against its western European counterparts.⁶¹ This situation is unlikely to get much better. As the Leitch report found: 'even if current targets to improve skills are met, the UK's skills base will still lag behind that of many comparator countries in 2020'.62

i nere nave been major weaknesses in the UK skills base since the 1960s, if not much earlier.63 While this is no excuse for the current government's negligence in addressing these deficiencies, the boom in the UK economy in the decade to 2007 may not have been as prolonged had gaps in the labour market been left unfulfilled. As Taylor has argued, the UK's 'skills failure' has been 'rescued' by immigration, particularly from the A8 states.⁶⁴ Indeed, a 2007 inquiry by the House of Commons Trade and Industry Committee found that EU expansion has helped to supplement labour market supply, because A8 nations have stronger technical skills bases in areas where the UK is weaker.65

IMMIGRATION AND INFLATION

In evidence presented before the House of Lords inquiry, past and present members of the Bank of England's Monetary Policy Committee (MPC) (the body responsible for setting monetary policy) argued that the increased flows of migrant workers into the UK, particularly as a consequence of EU expansion, have helped make the labour market more flexible, which has had positive implications for inflation. Stephen Nickell, a former member of the MPC, told the Committee that immigration has been a significant consideration in the determination of monetary policy.66 David Blanchflower, a current member of the MPC, explains that a reason for the link between the two relates to the characteristics of the workers from the A8 states:

This group of workers is really quite different in that their probability of working is so very high. As a group they are not unemployed, they are not drawing benefits, they are clearly working and they are not drawing from the total population ... This is ... raising the trend growth of the economy and in a sense it is to some degree holding back wage inflationary pressures that we have seen in the past. ⁶⁷

Committee neara Blanchflower that A8 workers tend to be 'highly productive',68 and from another economist, Robert Rowthorn, that 77 per cent were in low wage employment.69 According to Blanchflower, these traits have produced two effects. First, the flexible nature of the UK labour market, combined with the increased supply of labour has reduced 'mismatch', that is, it has resulted in workers being better matched to the jobs they are qualified to perform. 70 Second, the flow of highly productive A8 workers has increased the 'fear' of unemployment among the resident population. While Blanchflower says that there is little or no evidence of resident workers actually being displaced, this 'fear' has resulted in workers becoming 'aware that they can be replaced more easily than in the past', thus preventing them from making higher wage claims as would normally be the case in a buoyant economic environment.71 Nickell presents a similar conclusion to the Committee: 'there is evidence to suggest that immigration has increased flexibility in the labour market, reduced mismatch and by and large increased downward pressure on pay overall at any given level of economic activity'.72 With lower wage growth helping to ease inflationary pressures in other areas of the economy, Blanchflower argues in his written evidence to the Committee that 'immigration has therefore helped the MPC to hit its inflation target'.73

The connection between immigration and monetary policy was almost completely overlooked by both the Committee in its assessment of the economic impact of immigration and by the government in its reply. One possible explanation for the government's reluctance to promote this connection is that it would be an admission that wage growth has been contained, which would be a difficult sell to Labour's working class electoral base. While trade unions

nave largely supported the government's immigration reforms over the past decade, polling data suggests that its policies have been particularly unpopular among lower and middle-income earners.⁷⁴

CONCLUSION

The main significance of the report by House of Lords Select Committee on Economic Affairs lies in the bluntness of its criticism of the case made by the Labour Government in support of its immigration polices. The report draws attention to the poor data that has underpinned the government's arguments, which has contributed to the perception that the government has lost control of its immigration program. In this regard, the House of Lords report provides ammunition to critics of Labour's immigration policies, thereby helping to further weaken an already flailing government.

However, the report is unlikely to precipitate a substantial reorientation of economic immigration policy, even if Labour loses the forthcoming general election. The investment in training that the Committee calls for requires a serious commitment that no government in many

decades has been willing to make. It is therefore likely that immigration will continue to be needed as a means of labour market complementation, at least during instances of pronounced labour shortage.

The main feasible change to current policy recommended by the report is the introduction of an indicative target range for net immigration. This is a policy of the Conservative opposition, and is therefore quite likely to be implemented were the party to win the next election. Given that a target range would only apply to non-EU immigration, and would possibly exclude highly skilled workers and students, the probable impact of such a policy is likely to be minimal. It is therefore difficult to understand why the Labour Government is resistant to the proposal. Experience in Australia and Canada shows that indicative target ranges are by definition indicative and can thus be adjusted if circumstances require. The implementation of such a measure would be a gesture of transparency that could help the government restore some of the public faith that it has manifestly lost in its immigration policies.

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