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## **The Infrastructure and Other Costs of Immigration**

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# The Infrastructure and Other Costs of Immigration.

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## **SUMMARY:**

Since 2002, the British Government department responsible for immigration, the Home Office, has claimed immigrants pay £2-5bn more in tax than they withdraw from the public purse. The workings behind this figure omit the cost of the additional infrastructure investments that immigrants necessitate (no small omission).

The conventional wisdom is that funding government owned assets is a burden on the community at large, whereas funding private sector business assets is not. However the distinction between public and private sectors is artificial. Thus funding the private sector investments is just as much a burden on the community as funding the public sector. Thus it is the community at large funds the additional private sector business assets that immigrants necessitate. The important distinction is not between public and private sector assets, but between what might be called “communally used” assets (public and private) and assets which only one person or family benefits from, of which housing is much the most important. That is, the community at large does not pay for immigrants’ housing: immigrants themselves do.

Assets other than housing in the UK amount to about £30,000 per head. The investment burden on the community is around double this because the typical immigrant has one child shortly after arriving. Immigrants do eventually pay this back – after about a generation. But by that time interest on the debt (which is not paid back) resembles the debt itself.

Having arrived at a figure for the investment burden that immigrants impose, there is then the question as to what effect this has on the overall contribution that immigrants make, or burden that they impose. Answering this question involves answering a number of subsidiary questions about what can and cannot be debited to immigration. The four main subsidiary questions are thus.

1. Should the cost of educating immigrants’ children (£7.6bn a year) be attributed to immigration? The Home Office, Migrationwatch and others have disagreed on this for some time. It is shown that Migrationwatch is right: these educational costs should be attributed to immigration.

2. In past years, some Government current spending (as opposed to capital spending) was financed by increasing the national debt. Are immigrants (who have not benefited from this spending) effectively paying interest on this part of the national debt? If so, this would be unfair. It is shown that immigrants are not in fact paying for this past current spending.

3. Several studies have recently claimed that immigrants reduce interest rates. These studies all make the same mistake: they assume that interest rate reductions are the only weapon that governments have to raise demand with a view to employing extra workers (immigrants). In fact it is an expansion of the monetary base over the decades and centuries which has created the extra demand that immigrants necessitate. Moreover, interest rates have to rise a finite amount in reaction to immigration because someone somewhere has to forgo consumption to fund the additional investments that immigrants necessitate.

4. Do remittances reduce real incomes for natives? It is concluded that they do.

The final figure for the cost imposed on UK natives by immigrants (about £12bn a year) is tentative, first because quantifying the variables that produce the £12bn is more informed guesswork than accurate measurement. Second, some of the official figures on which the estimate is based could be inaccurate. For example, there is evidence that the official figure for the total value of all assets in the UK could have been underestimated by 100% or more; and the real figure for remittances could conceivably be ten times the official figure. In short the cost imposed on UK natives by immigrants could easily be half or double the above £12bn.

## DEFINITIONS

**Immigrant:** someone born outside the UK who is now resident in the UK (apart from those born abroad and given British citizenship because their British parents were living abroad only temporarily at the time of birth).

**Native:** A non immigrant: for the most part, people born in the UK, residing in the UK and having UK citizenship. Also included are the above born abroad, but with British parents.

**UK national:** A person holding or entitled to hold a British passport, including immigrants entitled to hold one.

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### Introduction.

Since 2002 the Home Office has claimed that immigrants pay more in tax than they withdraw from the public purse, sometimes called a “fiscal surplus”. This claim is based mainly on a Home Office publication (Gott, 2002). Gott put this surplus at £2.5bn a year.

The latest Home Office publication to repeat the claim was a Government submission to a House of Lords Select Committee on Economic Affairs in late 2007. (see “Home Office” under references below). This Home Office

submission will be called “HO”. The phrase “Home Office” will still be used in the normal sense of the phrase.

Publications are normally referred to by their author. But no author is given for HO. This is probably because of because HO is political in nature: Government economists were probably reluctant to put their name to a publication so clearly slanted in favour of immigration. (Evidence on the political influence behind HO is in endnote 1).

An Institute of Public Policy Research (IPPR) work published in 2005 (Sriskandarajah), repeated Gott’s calculations, and found that the fiscal surplus had increased in the intervening years.

The whole fiscal surplus idea is unsatisfactory in that Government in some years disburses more money than it receives; while in other years it is the other way round. In whatever year the fiscal surplus is measured, the latter point complicates the issue. Sriskandarajah solved this problem by measuring the fiscal effect of immigrants **relative** to that of natives. Page 11 of the IPPR work, for example, gives the annual net fiscal cost of the average immigrant in 2003-4 as £74 compared to a cost of £892 for natives, a difference of £818.

Multiplying the £818 by the 6 million or so immigrants in the UK means that the £2.5bn has risen to around £4.9bn.

This £818 “fiscal differential” certainly makes immigrants look good – until the explanations are examined. The explanations have little to do with outstanding productivity or hard work by immigrants. Immigrants who work, earn slightly more than the average native who works; on the other hand a significantly higher proportion of natives go out to work than do immigrants. As a result immigrants earn about 4% less per person of working age than natives. In short, hard work or productivity is not the explanation.

One explanation is that immigrants tend to concentrate at the top and bottom end of the pay scales, and those at the top pay more tax as a proportion of income than those below them on the pay scales. Immigrants from the English speaking developed world are concentrated at the top and those from the developing world at the bottom. The former earn about twice as much per person of working age as the latter. In short, the immigrant fiscal differential is largely explained by a bunch of people who UK natives scarcely regard as immigrants: the Irish in particular! (The source of these earnings figures for national groups is in endnote 8).

Thus the fiscal differential is a less impressive phenomenon than it might seem at first sight. And if the alleged fiscal differential is, as per Home Office reasoning, an argument for immigration, then presumably the poor showing of third world immigrants is an argument against immigration from the third world. But worse than that, as is shown in the pages below, the fiscal differential does not even exist. To be more exact, while the £2.5bn differential with which we started above was in favour of immigrants, the differential with which we end up below is in favour of natives, and mainly because of the big contribution natives make to the infrastructure and other investments that immigrants necessitate.

The pages below are sceptical about the benefits of mass immigration. No objections are raised against migration which alleviates genuine skill shortages in the host country. In contrast, mass immigration simply adds to the number of people in a country, which in the case of the UK is already about the most densely populated in the world. Indeed dealing with genuine skill shortages should not on its own result in significant net immigration since the number of skill shortages in other countries which Brits can alleviate should more or less equal the number of skill shortages in the UK that foreigners can alleviate.



**The additional investments that immigrants necessitate.**

The following pages are not the first attempt to calculate the cost of these investments. Scholefield considers this subject. But the subject is given a more detailed treatment here than Scholefield gave it. Also his calculations are a bit questionable (see endnote 2.) However, the final result of his calculation is of the same order as the result produced below.

Another publication whose author is obviously aware of this extra investment point is Migrationwatch's Briefing Paper No 1.2. However this publication does not quantify the costs. To summarise, there is work to be done on this extra investment point.

Having said in the introduction above that Gott and Sriskandarajah do not take additional investments into account, it is not a hundred percent certain that they omit it. Both publications set out the general principles behind their calculations, but the detailed calculations do not seem to be available. Both the Home Office and IPPR were approached in preparing this paper with a view to examining the detailed calculations. Neither organisation produced these workings. Indeed, for this reason, both publications must be taken with a pinch of salt. However there is not the slightest sign in these publications of the additional investment point having been taken into account.

The only sense in which Gott takes account of infrastructure is that he does attribute to immigrants what he sees as their fair share of interest on the national debt (p.30). But this misses the point, or rather two points. First, the national debt covers only publically owned assets, that is, the private sector is ignored. Second, it misses the above point about the **extra** infrastructure and other investments that the entire community has to pay for when immigrants arrive.

A possible objection to the latter argument is that Gott and Sriskandarajah are concerned only with the **fiscal** effects of immigrants, which means ignoring the private sector. There are four answers to this.

1. A substantial proportion of the country's investments are in the public sector, and extra people necessitate extra investment in this sector. This clearly has fiscal effects: effects overlooked by the above two publications.
2. The relevance of the alleged fiscal surplus is that it amounts to a gift by immigrants to natives. If "gifts between the two communities" are the fundamental point, it is illogical then to ignore private sector "gifts".
3. The distinction between the public and private sector is artificial. For example numerous functions once performed by the UK Government, which were paid for out of "tax", have now been privatised. Thus payment for these services is no longer called a "tax". So far as economics goes, the distinction is near meaningless.
4. It could be argued that if the private sector is to be included, every single economic influence of immigrants might as well also be included, which leads to excessive complexity. The answer is that Gott, HO and Sriskandarajah in fact discuss numerous other economic influences of immigrants, but fail to quantify them for want of evidence as to the magnitude of the effects. That is, they quantify what can be quantified: a rational strategy.

To summarise, the argument so far is first, that the concept "fiscal surplus" should be broadened to include the private sector. Secondly, the concept should apply to the **difference** between the effects of immigrants and natives. Thus a new phrase is required to describe the new concept. The phrase *net immigrant effect* will be used (in italics).

In fact, there is surprisingly little reference to either “fiscal surplus” or “*net immigrant effect*” below, and where references do occur, they occur in the context of discussing publications which deal specifically with the concept “fiscal surplus”. Thus the phrase fiscal surplus is used more frequently than *net immigrant effect*. This might seem confusing, but it is unimportant because any change to the fiscal surplus (as will be apparent from the above paragraphs) is automatically reflected in the “*net immigrant effect*”. For example, subtracting £1bn from the fiscal surplus also means subtracting £1bn from the *net immigrant effect*. This is because the latter is a simple function of the former.

***Additional investments are funded largely by natives.***

When immigrants arrive, they make a fair contribution to depreciation on, and replacement of the assets that exist when they arrive. They also make a fair contribution to interest on debt incurred to buy such assets. Immigrants do this when they pay taxes, and for example buy rail tickets or bus tickets. But they ***don't*** pay for all the ***extra*** investments their arrival necessitates. To illustrate, they do not pay a capital lump sum in respect of the additional roads or railtrack they necessitate, nor do they make a specific payment in respect of any rise in interest rates required to attract the savings needed to fund these additional investments. This extra or initial investment necessitated by immigrants is paid for largely by natives.

The latter suggestion that immigrants raise interest rates conflicts with the studies regularly published claiming immigrants **reduce** interest rates (e.g. Blanchflower or Hawksworth or Ernst & Young).

The whole question of immigration and interest rates is examined in more detail in endnote 3 below, but briefly the argument in this endnote is that in practice it is an expansion of the monetary base over the decades which has created the additional demand that immigrants necessitate (both in the US and the UK), and not interest rate reductions. This point is overlooked in the above three studies. Moreover interest rates have to rise because someone somewhere has to be induced to forego consumption to fund additional investments.

**Most investments public and private can be debited to immigration.**

Not all the additional investments that result from immigration can be debited to immigration (i.e. added to the hypothetical debt that immigrants owe natives).

When investments are made as a result of immigration, the foregone consumption or loss of real income for natives varies as between different types of asset: public, private and so on. It also varies with the way investments are funded. Investment scenarios which clearly result in a straight real income reduction for natives will be considered first. Then scenarios, where the effects are more debatable will be considered, in particular housing.

If Government funds new public sector assets out of tax (rather than by increasing the national debt), the effect is a straight increase in tax for everyone. All taxpayers (including immigrants who arrived a few years ago) forgo current consumption: everyone is initially worse off.

As distinct from using **tax** to fund public sector investments, a more realistic assumption is that they are funded by expanding the national debt. The latter is in practice what Government tries to do: fund investments out of the National Debt and current spending out of tax. The only difference between the two

scenarios is that instead of grabbing the whole capital sum from the population in one year, Government borrows the capital sum and spends the next few decades grabbing enough from the population to pay the interest and the ultimate capital repayment.

As to exactly how many years or decades are involved, it seems that the average asset in the UK is written off over about 33 years. National Statistics (1, table 3.3.2) gives the UK's annual capital consumption as £140bn compared to a gross capital stock for the UK of £4,650bn (table 2.1.1). Thus  $4,650/140 = 33$  years.

As distinct from Government, businesses also require additional capital when immigrants arrive, thus they also borrow more. It is generally accepted that immigration boosts profits. But there is a sub-plot here, not so frequently mentioned: businesses raise prices, not just to boost profits, but also so as to pay for interest on money borrowed to fund new investments. Alternatively they offer shares on which dividends have to be paid. This process is not much different from the above Government strategy of taxing the population so as to fund new investments.

Against the latter point it could be argued that businesses are in a free market and are thus cannot extort money in the same way as governments. However it is widely accepted that immigrants temporarily raise profits at the expense of consumers. This is what might be called a temporary non free market scenario, or to put it in economics jargon, profits are temporarily raised above normal. (In economics it is accepted that in a rapidly changing or unstable environment, some or all firms can exploit the situation and raise profits. In contrast, in a stable environment, firms will tend to make profits that amount to no more than a standard return on capital. The latter are often called "normal" profits.)

When firms make “above normal” profits, consumers have no option but to pay the relevant increased prices. This is little different to where they pay up when Government raises taxes.

Finally, anyone not convinced by the latter argument on businesses must answer the question as to exactly who forgoes consumption so as to create immigrant investments. It is certainly not exclusively immigrants.

**Most extra housing cannot be debited to immigration.**

Immigrants apply for mortgages, as do landlords who house immigrants. The effect is similar to where Government or businesses expand their borrowings and force an interest rate rise. That is, instead of Government or businesses outbidding others for savings, the immigrant or landlord attempts to outbid others. But the big difference is that interest and repayment of capital is charged specifically to the owner occupier or tenant (via the landlord). In contrast, with Government or businesses, the community pays.

A second important difference is that immigrants cannot extort money with which to pay interest, as can Government. As to comparisons with existing businesses, immigrants are not in a position to earn above normal profits. An exception here are the immigrants who themselves are entrepreneurs. However, unless these entrepreneurs arrive with the requisite amount of capital, they will need to borrow initially to set up their businesses. Thus these entrepreneurs will tend to dampen the above mentioned “super normal” profits, but they will not dampen the interest rate rise.

Having said that immigrants essentially fund their own houses, this is not to say that the extra housing is totally cost free for the host community. Immigrants

have certainly helped raise house prices in the UK to the point where thousands and first time buyers cannot afford to buy. The additional demand for mortgages also raises interest rates, which is not cost free (repossessions, etc). Moreover people often go to extreme lengths to prevent houses being built on countryside they overlook or on playing fields their children use. These people clearly regard additional housing and other development associated with an expanding population as a severe cost.

It might be argued that public or social housing is not all that different to private housing in that while this form of housing tends to be subsidised, tenants nevertheless foot most of the bill. Thus, arguably, public housing should be excluded. Against this, however, the effect of immigrants buying houses, is far from cost free for natives. Thus public housing will be included on the questionable basis that this balances the above sundry costs imposed on natives. Even if this questionable strategy is wrong, the consequences are not too serious: the total value of public housing is only around a tenth that of private housing, about £110bn compared to £1,042bn (National Statistics 1, tables 1.1.1 and 5.4).

### **Should gross or net investment figures be used?**

National Statistics gives totals of all assets in the UK, first, at what NS calls a “gross” value. This is the “brand new” cost. Second, figures are given for the value of these investments with a suitable amount written off on account of age or depreciation. These are called “net” figures. The net figures are periodically adjusted to reflect inflation and increased replacement costs.

It might seem that the gross figure should be used, (as Scholefield does ). After all, if a number of immigrants arrived and we wanted to ensure no dilution of the capital investment to population ratio, a selection of almost exclusively new assets would have to be created. This is because while a particular person or organisation can buy second hand assets from another person or organisation, the country as a whole cannot for example suddenly add to its stock of fifty year old houses.

In fact the net assets figure is more appropriate for the following reasons. The country's investments range from the brand new to the worn out. And similarly when considering investment per head, a range of investments can be attributed to each person ranging from the brand new to the worn out. Now if the assets apportioned to a selection of people (e.g. immigrants) are to be made up only from new assets, these assets will be more productive per physical unit (e.g. per lorry, or computer) than older versions of the same assets. Thus fewer physical units of the assets are required. In fact the value of assets required where all the assets are new will be much the same as where the assets range from brand new to worn out, and for reasons set out in a footnote<sup>1</sup>.

In short the appropriate figure is the net asset per person figure, even if all the investments in a particular case are new.

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<sup>1</sup> Assume that output obtained from an asset is closely related to its price. This is a not unreasonable assumption since if the "output over price" ratio of old assets were above that of new assets, the market price of old assets would tend to rise till the above two ratios were equal again. It follows that the value of new assets required to get the output that comes from a given selection of old assets will be very similar to the value of the latter selection of old assets.



**Assumption 1: investments made when immigrants arrive.**

The total of all capital investments in the UK in 2006 was £2,835bn (National Statistics (1, table 1.1.1)). Of this, £1,042bn consisted of private housing. Because of the above decision to ignore private housing, the appropriate total asset figure is the former figure less the latter, namely £1,793bn. The £1,042bn value of private housing clashes with a value of £4 trillion given by the Halifax Bank in January 2008. National Statistics do not include the value of land, but land normally accounts for about a third of the value of houses. Also publically owned houses are not included in the above one trillion figure, but publically owned housing only amounts to around £100bn, so there is still a large discrepancy here: up to 250%. If this 250% discrepancy, or anything like it applies to **all** assets, then the final figure below for the cost of immigrant investments will be a serious underestimate. However we will stick with the National Statistics figures.

Different assumptions can be made about **when** immigrant investments are made.

One assumption is that they are made when immigrants arrive. Indeed, if everyone were to enjoy the same investment per head after the arrival of a number of immigrants as before, then the relevant investments would actually be made on the arrival of the immigrants.

The above £1,793bn divided by the 60 million people in the UK gives a figure for investment per head of £30,000 . The figure given in HO (p.5) for net immigration for the year ended mid 2006 is 190,000. Thus the total amount of investment required is 190,000 x £30,000 which equals £5.7bn a year. 190,000 also happens to be the figure given for expected net immigration in the near

future by non-British nationals (p.7), thus 190,000 is not a bad figure to take. Though clearly there will be arguments for some other figure.

For those who are not happy with including the private sector, the equivalent calculations including just public sector assets are in a footnote.<sup>2</sup>

Returning to calculations for public and private sectors combined, since these calculations are dispersed at relevant points on these pages, all calculations are repeated in summarised form in Endnote 5.

### **Assumption 2: investments are delayed.**

Given the proverbial underinvestment in the UK (over-crowded motorways, etc), the above assumption that immigrant investments are made on arrival is unrealistic. The delay that takes place before investments are made might appear to be a saving. Unfortunately, the delay just results in the costs that come from underinvestment (over-crowding, etc). So how is the cost of not investing to be quantified? The answer is as follows.

It is widely accepted in economics that to maximise the benefit from an investment, the amount invested should be an amount beyond which further investment fails to bring a return. Also, investments, like everything else are affected by the law of diminishing returns. This means that if the amount

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<sup>2</sup> The total of public sector assets is around £450bn. This works out at £7,500 per person. Multiplied by 190,000 that comes to £1.4bn. In the following pages, under “Adjustments to the investment figure” the figure for all assets including private ones is multiplied by 1.8 mainly because of the large number of children that immigrants have. Applying the same to the above £1.4bn, the latter multiplied by 1.8 is £2.5bn. That on its own cancels out the £2.5bn fiscal surplus with which we started.

invested falls short of the optimum by a small amount, the cost of “not investing” will be approximately equal to the latter small amount over the life of the asset. (In fact, in view of the diminishing returns, the cost of not investing is a bit *more* than the cost of investing, a technicality which will be ignored).

In contrast, if instead of investing an inadequate amount over the entire life of an asset, the correct amount is invested, but after a delay, the cost per year's delay will be the cost of the asset divided by its expected life. For example, given that the average asset is written off over 33 years, if the delay is three years, costs are increased by  $3/33$ , i.e. about 9%.

### **The free international movement of capital.**

A possible objection to the argument so far concerns the assumption that all money for investment comes from UK savers, when in reality capital moves quite freely across international boundaries.

One answer here is that many other developed countries are facing the same levels of immigration as the UK. Thus it is even possible that the total amount saved in the UK in respect of the capital requirements of immigrants actually exceeds that required to meet just the UK's needs because UK savers are making a contribution towards the “immigrant investment needs” of other countries as well as paying for most of the relevant investments in the UK. Moreover, even where investments are funded by money borrowed from abroad, this does not change the final outcome significantly. An investment funded by a loan from abroad constitutes a rise in demand in the UK, something the monetary authorities have to react to (at least this is the case where mainly UK labour creates the investment, e.g. builds a factory). That is, assuming demand

is at maximum level that is consistent with acceptable inflation, then the additional demand that the investment involves will force the UK to constrain demand to balance this. In other words the UK monetary authorities will have to force the population to forego consumption, just as would have been the case had the investment been funded from UK sources.

Also, loans from abroad are not interest free: the interest still has to be extracted from the UK population. All in all, borrowing from abroad does not make much difference, thus it is reasonable, if not entirely accurate, to assume that the UK finances its own immigrant investment needs.

**“Putting pressure on public services”....does this mean anything?**

It is often said that immigrants put “pressure on public services”. Immigrants do not, of course, put pressure on public services any more than on private services. Thus what is required are arguments and calculations applicable to both sectors, as set out above. Moreover, the phrase “put pressure on” is too vague.

In this connection, there is a flawed argument put forward by Sriskandarajah (p.6) to the effect that public services employ a disproportionately large number of immigrants. This, according to Sriskandarajah, deals with the claim that immigrants put pressure on public services. This argument is flawed, for the following reason.

To the extent that immigrants are over-represented in the public sector, they are under-represented in the private sector. Thus, using the above logic, it could be argued that immigrants nowhere near pay their way in the private sector. But the truth is that the exact sectors or industries in which immigrants concentrate is irrelevant to the overall picture.

Second, the fact that a particular number of immigrants work in a particular industry is irrelevant to the basic point addressed here, namely the additional investments that immigrants make necessary. To illustrate, immigrants working in the public sector do not have a special deduction made from their salary to pay for these investments. Put another way, immigrants in the public sector get exactly the same pay in any job as natives (assuming identical qualifications, etc). The difference is that the latter and/or their parents their have built up the nation's assets over the years.

**15% of immigrants assumed to arrive with adequate capital.**

The above calculations assumed that all immigrants are penniless on arrival. Obviously they are not. On the other hand as Scholefield points out, only a minute proportion of immigrants make use of the Government's scheme for allowing immigration on the basis of immigrants being "of independent means". Also, where immigrants do bring significant capital, the first investment they will make in most cases will be in housing. This still leaves other investments to be funded.

Another strand of evidence here is that only 20% of immigrants become house owners within five years of arriving, according to the Council of Mortgage Lenders. Under the "adjustments" section below it is assumed that 15% of immigrants make no demands on native savers.

A final point on wealthy and not so wealthy immigrants is that the effect of a change in Government policy towards the super-rich and internationally mobile could be dramatic. For example a rapid exodus or influx of the very wealthy, assuming they take a significant portion of their assets with them, might swamp

the effects discussed here. Thus the discussion here is obviously on the “other things being equal” basis.

***Do children inherit their share of public assets from their parents?***

Arguably the children of natives at the start of their working lives are in much the same position as immigrants, that is they have made no contribution to the capital stock. Or perhaps, they should be seen as inheriting their portion of the capital stock from their parents or grandparents. So should a distinction be made between immigrants and these children, or between immigrants and natives?

The answer depends on what were the intentions of previous generations in sacrificing current consumption in order to build up and maintain the country’s capital stock. If it was their express intention to share the stock with millions of immigrants then it would be justifiable to make little distinction between immigrants and natives. However this seems unlikely because a large majority of personal assets are bequeathed to relatives. The intentions seem clear enough.

***Immigrants’ human capital is included in the fiscal surplus.***

Human capital (i.e. skills) is an important form of capital stock, and immigrants bring their fair share of this form of capital. That is, immigrants have approximately as good skills as natives. This raises the question as to whether

this “gift” of capital to the UK should be subtracted from the capital investment in roads and so on that immigrants make necessary.

The answer is that the full benefit of this human capital appears in the earnings of immigrants: it is already included in the figures that go to make up the fiscal differential or *net immigrant effect*.

### **Immigrants’ numerous children require infrastructure.**

It can be argued that the effects of immigrants should be considered without reference to the effects of their children. This point is considered in detail below under the heading “Debit the cost of educating immigrant children to immigration?”. The conclusion is that the costs associated with immigrants’ children **should** be factored in.

If immigrants arrived as complete or typical family units, that is including a representative sample of new born babies, children, grand-parents and so on, there would be no reason to say much about the infrastructure required by UK-born children of immigrants. This is because while such children certainly require infrastructure and other investments, such children would be born at about the same rate as grand-parents died. That is, the investment burden on the UK would not increase after immigrants’ arrival.

However, immigrants on arrival are heavily clustered around the age of 20-25. On the basis of this evidence alone, one would expect them to have most of their children quite soon after arrival. Indeed it seems that this factor effectively doubles the investment burden that immigrants impose. That is for every immigrant arriving, one “immigrant’s child” appears soon afterwards; and the

child requires infrastructure and other investments just like the original immigrant. For evidence on this “doubling” effect, see endnote 7.

**Adjustments to the investment figure.**

Adjustment 1. The above £5.7bn investment needs doubling to take account of immigrants’ children (a 100% increase).

Adjustment 2. It was assumed above that the entire cost of immigrant investments are funded by natives. Since about 10% of the population are immigrants, this is clearly not so: immigrants themselves pay for about 10%.

Adjustment 3. Quantifying the number of years by which immigrant investments are delayed is difficult. At the same time there is clearly some additional cost imposed here. A further complicating factor is that it is near impossible to apportion blame for the delayed investment. Probably the investment delay attributable to illegal immigration can be blamed on the illegal immigrants. Anyway a token 5% addition will be put in. In view of the average 33 year life of assets in the UK, this 5% amounts to assuming just over a year’s delay.

Adjustment 4. Not all immigrants are penniless. Guessing what proportion come with how much capital is difficult. Just under 30% of immigrants come from the English speaking developed world and Western Europe: countries which, taking the entire population of such countries, enjoy a similar level of wealth per head as the UK. On the other hand the average age of immigrants is young: between 20 and 25. People at this age normally have not accumulated or inherited large dollops of capital. So let’s halve the 30% and call it 15%. But clearly more research would refine this figure.



Conclusion: total additions to cost are, respectively,  $100 - 10 + 5 - 15 = 80\%$ .

$\pounds 30,000 \times 1.8 = \pounds 54,000$ . The latter multiplied by the annual net immigration figure (190,000) comes to  $\pounds 10.3\text{bn}$ .

**Immigrant debt is paid back after about a generation.**

*Summary. Immigrants pay the debt back after about a generation, by which time interest on the debt will have amounted to a sum that resembles the debt itself. The latter is not paid back. Thus in effect immigrant debt is a cost to the host community.*

Large capital sums must be treated with care. For example if interest is not paid on debt, it grows exponentially. At the other extreme, if debt is paid off quickly, little interest accrues before repayment.

By way of illustration, consider first an average or typical immigrant. There is not much difference between the skills of immigrants and natives (though to be more accurate those at the extreme ends of the skill range are over represented in the immigrant community: the very highly skilled and the totally unskilled illiterates).

An immigrant of average skills and no capital will pay back their initial debt to a large extent when they have built up the bulk of their pension pots. To be more accurate, a given bunch of immigrants will probably not fully pay back the debt until sometime in the second generation, by which the group of families concerned will have their share of wealthy individuals who in addition to having private pensions, have their share of personal holdings of government debt, unit

trusts, shares, and so on. For those not clear on this point, there is further explanation in a footnote.<sup>3</sup>

To summarise, and still assuming immigrants are identical to natives, immigrant debt consists of a capital sum which is repaid after roughly a generation, plus interest, which is never paid. Given the time that elapses before the capital sum is repaid, the interest probably comes to a figure that resembles the debt itself. In short, the effect of immigration is a cost to natives, which is repaid, but which is replaced by another cost of similar magnitude, namely the interest. Thus so far as the average immigrant goes we might as well measure the initial capital investment, call that the “cost” and leave it at that. This procedure is rough and ready but it is the procedure adopted here.

Having dealt with the average immigrant, the reality is that economic performance of different immigrants and different groups of immigrants varies enormously. And the initial debt will amplify this difference. To illustrate, unskilled and untalented immigrants effectively have a debt around their neck which they will never repay and which grows exponentially because of interest. In contrast, highly productive immigrants will repay their debt in a few years: before there has been time for much interest to accrue. Such individuals’ initial debt is a negligible burden on the host community: it can scarcely be called a “cost”.

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<sup>3</sup> When immigrants arrive in an economy which has settled down to its preferred level of borrowing, lending, interest rates, etc., the new assets will be funded by an interest rate rise, which will result in lenders lending more and by existing borrowers borrowing less. Assuming that the preferred level of borrowing, lending, etc that immigrants and their descendants ultimately aim for is similar to that of the host population, when the lenders amongst immigrants and descendants have accumulated their preferred level of wealth, lending plus borrowing plus interest rates will subside to their original level. In effect, lenders amongst immigrants and their descendants will pay back the lenders amongst the host population who temporarily raised their lending in reaction to the raised interest rates. Also native borrowers will revert to their original level of borrowing, funded in part by immigrant lenders.

The extent to which the initial debt is a cost to the host community is also influenced by the overall *net immigrant effect* picture. To illustrate, this picture is crucially influenced by assumptions such as whether the cost of educating the children of immigrants can be debited to immigration (about £7.6bn a year). If it is correct to make assumptions here which are unfavourable to immigrants, this in turn increases the number of immigrants who effectively never repay the debt.

The same applies to groups of immigrants. For example immigrants from English speaking developed countries (except the Irish Republic) earn twice as much per person of working age as those from developing countries. This is a big difference, a difference which will be amplified by the initial debt. The Irish earn about 10% more than native Brits, but they are not in the USA, Canada, Australia league. Not only that, but it is the developing country immigrants who have large numbers of children, for whom infrastructure has to be built. From the strictly economic point of view, third world immigrants are of very questionable benefit to the UK.

The phrase “per person of working age” as used above refers to the total earnings by a particular group, e.g. the Irish, divided by the number of immigrants of working age in that group. This gives a better idea of the economic contribution than the average remuneration of those actually going out to work in each group, because the latter measure hides the fact that there are big differences in the proportions of each groups going out to work.

Finally, for those who do not like the idea of adding interest to the immigrant debt, even if one does not add interest, the fact remains that the payback period is so long for the average immigrant, that about half the natives who fund the relevant investments will be dead before the original debt is paid back.

“Lending” money to someone who does not pay it back, but instead pays it back to one’s children in fifty years time without any interest is not a brilliant bargain.

### **Subsidiary points.**

A few points will now be considered which are arguably out of place in a paper devoted to immigrant investments. But they are considered, first because at least £1bn a year is involved in each case, and second because the way the relevant sum should be treated is disputed. If any sort of final cost/benefit figure is to be given for immigration, these questions must be answered.

The first is the question as to whether the cost of educating the children of immigrants can be debited to immigration.

### **Debit the cost of educating immigrant children to immigration?**

*Summary. The Home Office argues that UK born children of immigrants are not immigrants on the normal definition, thus the costs of educating such children should be ignored. However there is no hard and fast definition of the word immigrant. Hence it is more fruitful to study the effects of immigration, rather than the effects of immigrants; and immigrants’ children are obviously a result of immigration. Thus the cost of such education should be debited to immigration. However this summary does not do justice to the complexity of the arguments here.*

Migrationwatch and Rowthorn (2007,A) claim that educating the children of immigrants should be attributed to immigration, that is the cost of such

education should be subtracted from the fiscal surplus. Sriskandarajah agrees, but with reservations. The Home Office disagrees (although a few years ago the Home Office did attribute these costs to immigration).

HO does not go into this point in detail. But the Home Office presents a more detailed argument in a submission to the House of Lords ( see “House of Lords” in references). The latter will now be considered.

The Home Office cites a Migrationwatch claim that but for immigration, UK born children of immigrants would not be here, a claim from which Migrationwatch concludes that the cost of their education should be attributed to immigration, that is subtracted from immigrants’ fiscal surplus. The Home Office counters by pointing out that the same could be said about the adult children of immigrants, and that the tax paid by these adults is not brought into the equation. And stopping the measurements at the point where immigrants’ children start work is an anomaly or “bias”, as the Home Office puts it. (The bias exists, at least on the face of it, because on leaving school, people cease to claim from the public purse and begin to contribute to it, thus stopping measurements at this point could be construed as favouring the anti-immigration case.)

**The irrelevance of definitions.** In support of their case, the Home Office claim that “no usual definition of ‘migrant’ would consider such children as migrants, and doing so would substantially bias the calculation against migrants.” The flaw here is that the strict definition of ‘migrant’ is not relevant because there **is** no hard and fast definition of the word. Take the case of a pregnant woman who gives birth shortly before arriving in the UK. On the normal definition of the word, the baby is an immigrant. In contrast if the baby first appears in the world just after the mother has arrived in the UK, the baby is not

an immigrant. To pretend that there is any difference between the two scenarios, as the Home Office would presumably want to, is clearly nonsense.

And for another example, it could be argued that an immigrant who has been in the UK thirty years, who speaks perfect English and who intends staying is no longer an immigrant.

In short, studying the effects of **immigration** is more fruitful than studying the effects of **immigrants**. Indeed the advocates of multiculturalism are happy enough to attribute the benefits of ethnic restaurants to immigration even though a substantial proportion of those running such restaurants are second or third generation immigrants. And immigrants' UK born children are certainly a result of immigration.

Moreover there is nothing wrong with studying the effects of second, third or even fourth generation immigrants, as long as the study is not biased in any way. Thus the fact that immigrants' children are not immigrants on the normal definition of the word immigrant is irrelevant.

**Including children and grandchildren makes little difference.** As to the Home Office point that if the cost of immigrants' children is to be included, the tax paid by immigrants' children when they start work should also be included, this point is perfectly fair. But it misses another vital point: people normally live to see a few of their grandchildren (who consume taxpayers' money). And if we are to factor in everything up to the death of the original immigrant, the cost of the grandchildren should be included. Indeed, as will be evident from the diagram in endnote 6, if the total fiscal effect of the typical immigrant family is measured up to the point where the original immigrant dies, the result will be about the same as measuring up to the point where the immigrant's children start

work. The reason is that between these two points there is a complete family fiscal cycle of net contributions and net withdrawals from the public purse.

*A fiscal surplus in year X benefits people in year X.* The next weakness in the Home Office case stems from the basic relevance of the fiscal surplus or *net immigrant effect*. The Home Office does not actually spell this out, but as pointed out near the outset above, the relevance of a fiscal surplus or *net immigrant effect* is that it amounts to a gift by one group (natives or immigrants) to another (natives or immigrants). And the gift does not for the most part benefit the recipients ten years hence; the latter would only obtain if the gift came in the form of a relatively long term investment. A gift by natives to immigrants in 2008 benefits immigrants in 2008 for the most part. That is additional tax paid by natives in 2008 mean less tax paid by immigrants in 2008 other things being equal.

Put this another way, there is no getting round the brute physical fact that natives living at the same time as immigrant children are educated suffer a loss of real income to pay for the education. Erudite arguments about the definition of the word immigrant are irrelevant compared to the brute physical fact of reducing the amount of beer, petrol, cut flowers or healthcare that natives enjoy as a result of paying for the education of immigrants' children.

A further weakness in the Home Office case here is that while most of the cost of educating a child in a given year is born in that year (e.g. teachers' salaries), a significant minority of the cost (the construction of school buildings) is born years if not decades **before** the year in question. This further weakens attempts by the Home Office to attribute educational costs to some point in the future.

Of course while immigrants' children are being educated, immigrants themselves are normally at work and paying taxes, which reduces the burden on

natives that comes from funding the education of immigrants' children. On the other hand, when people are a net drain on the public purse, as they are when children, the amount of drain per year is more than the amount of net contribution per year when working and paying taxes. Moreover, immigrants have more children than natives. There is thus an unquestionable reduction in natives' real incomes as a result of the presence of immigrants and their children in the host country.

**Immigrant fiscal surplus equals a 2<sup>nd</sup> generation fiscal deficit.** The final nail in the Home Office case is that if the Home Office really wants to stick to its guns and claim that on a strict definition of the word immigrant, immigrants produce a fiscal surplus, the answer is that the claim is misleading. This is because this policy involves **not** attributing the surplus to the subsequent stage of the immigrant family's life in the host country. As a result, the "subsequent stage" starts with a large fiscal deficit. Thus if the Home Office wants to trumpet immigrants' fiscal surplus, then those with doubts about the benefits of immigration are equally entitled to trumpet the dire fiscal effect of second and third generation immigrants.

**Measuring up to the death of immigrants and up to school leaving age of their children.** Having hopefully demonstrated that debiting the cost of immigrants' children to immigration is fair, there remains an apparent anomaly which is that this involves stopping measurements in respect of children when they leave school, while stopping measurements for immigrants when they die, roughly thirty years later. Does this matter? The answer is "not much": because after an immigrant's children leave school, the immigrant has about twenty years of work ahead of them and about ten years of retirement. During this period the immigrant is tax neutral, roughly speaking.



**Mixed parentage.** A final technical point on education involves children of mixed parentage. The cost of educating children where both parents are immigrants is included in the £4.9bn IPPR figure which the calculations here start. But the cost of educating the children where one parent is immigrant and one is native is not. As Migrationwatch points out, it is fair enough to count these children as being so to speak “half immigrant” for educational cost purposes. This adds £2.6bn to the bill (Migrationwatch(2006)).

**National Debt incurred to fund current spending.**

*Summary. Immigrants pay taxes, part of which funds payment of interest on the National Debt. Arguably this is unfair in that in some cases part of the National Debt was incurred to fund current spending in years before some immigrants arrived: spending from which these immigrants do not benefit. In fact, inflation has seen to it that the National Debt total is more or less equal to the value of assets owned by Government. Thus in effect immigrants do not pay for the latter current spending.*

A problem raised but not solved by Gott was how to treat the portion of interest on the national debt which does not relate to capital investment (i.e. the portion incurred to cover current spending). This question might seem arcane, but as Gott points out, one set of assumptions here could double the £2.5bn fiscal surplus. The answer to this is that this portion of the National Debt seems to be of negligible proportions. To be more accurate, while the book value of Government assets using conventional accounting techniques might indicate that Government assets are around half the amount of the National Debt, the actual value of Government assets roughly equals the national debt. This situation has

presumably arisen because of the increase in value (or replacement cost) of property owned by Government, central and local. (National Statics (1, table 1.1.1 gives the total of Government owned assets as around £590bn. As to the national debt this is given by National Statistics 3, as £574bn.)

It will thus be assumed here that this rise in value/replacement cost solves the problem of the portion of national debt not attributable to capital expenditure.

There are of course those who do not like the latter sort of inflation accounting. They might argue that assets should not be periodically re-valued to reflect inflation and increased replacement costs. On this non inflation accounting basis, immigrants might appear to be paying too much by way of a contribution to interest on the National Debt in that the “current spending” part of the debt has nothing much to do with immigrants. However on this standard accounting basis (i.e. ignoring inflation) Government assets are more valuable (or costly to replace) than is indicated by their book value, thus immigrants are paying an inadequate amount of interest on the debt that corresponds to these assets.

In short, the amount that immigrants contribute to interest on the National Debt seems reasonable (apart, of course, from the “extra investment” point, which is the central point of this paper).

### **Is any defence spending attributable to immigrants?**

*Summary. Yes. Immigrants are defended just like natives.*

Rowthorn (2007,A,p.11) claims that “It can be argued that the armed forces are a public good whose benefits to the existing population are not affected by the entry of migrants. To allow for this we eliminate defence from the list of

expenditures allocated to migrants. This reduces expenditure on migrants by £3.0 billion.” Gott does not adopt this policy, and indeed the latter Rowthorn argument is flawed.

First, the argument implies that defence spending does not rise when the population increases. This idea is confounded by the simple fact that each county’s defence spending is closely related to the size of its population and output per head.

Second, what happens if the country is invaded? Would immigrants not be protected from the enemy in the same way as other citizens? This defence argument does not stand inspection.

### **Crime committed by immigrants costs the UK £3bn a year.**

Coleman claims that the crime committed by immigrants is in excess of what would be expected if crime levels amongst immigrants were the same as amongst natives. He puts the cost of this crime at £3bn. The evidence Coleman cites in support of this claim seems reasonable, thus the £3bn figure will be included in the total.

### **Remittances reduce the real incomes of natives?**

*Summary. The arguments here are complicated. The conclusion is that remittances do reduce the real income of natives by about £1bn a year.*

Scholefield, Migrationwatch and Coleman regard remittances as a cost to the country in some form or other. The three works by Rowthorn cited here pass no comment on the matter.

Remittances depress the value of sterling relative to other currencies, which raises the cost of imported products for UK consumers, and on the face of it reduces the latter's real incomes. There is a good argument against the latter point, which in fact is also an argument against all immigration controls. This is that all free market activities must be assumed to raise world output unless it can be proved that there is market failure, for example as would be the case where there are significant externalities not compensated for by parties to the transaction, or where monopolies exploit their positions. (Externalities are defined in a footnote.<sup>4</sup>)

One answer to the latter point is that, apart from externalities, there is nothing in the laws of economics that precludes a loss in output and/or loss of income for someone as a result of a transaction who is not party to the transaction. Also while market forces should return the incomes of those who have lost back to their original level quite soon, in practice, these damaging effects can last a long time. For example the switch to gas powered electricity generation over the last two decades or so in the UK has damaged the coal mining communities which used to supply coal for electricity generation. The damaging effects, psychological and physical are still evident two decades later.

There are of course differences between the effect of remittances and the above gas power station effect. First, in the latter case, those damaged are easily identified, whereas in the case of remittances, those who lose and those who gain are intermingled. Moreover, an individual person can gain **and** lose from

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<sup>4</sup> Externalities are costs imposed on those not immediately party to a transaction: for example the noise suffered by those living under flightpaths near airports.

remittances. For example an employer who hires immigrants will gain by employing immigrants, but will lose in that immigrants' remittances raise the price of the employer's foreign holiday.

Nor is there anything in the laws of economics that says that the spoils from a commercial transaction, in that they are enjoyed by the two parties to the transaction, are shared equally by the two sides. There is nothing to stop one side getting 99% of the benefit and the other, 1%. Indeed, the latter would seem to be the case with immigration. That is, study after study has concluded that far and away the biggest beneficiaries of mass immigration are the migrants themselves. (e.g. Roodenburg or Rowthorn (2007), A & B ).

While small amounts of migration which bring in genuinely needed skills where required obviously bring benefits, mass net immigration brings few benefits. In this circumstance, it is perfectly reasonable for the side that gets the 1% to refuse to enter into the transaction. It is also perfectly reasonable for this side to have a careful look at externalities, like the effects of over-crowding, and conclude that mass immigration is not worthwhile.

In the specific case of remittances, it would seem to be quite reasonable to argue that mass net immigration brings no benefits: it simply increases the population. While the remittances that these immigrants send home very clearly reduces real incomes for natives.

Having said that, there is a weakness in the above argument which should be mentioned: where immigrants work in an import substitute industry they arguably save importing the relevant product. Put another way if the UK has the choice between importing a product and paying an immigrant (who remits much of their income abroad) to make it in the UK, there is not much effect on the balance of payments. However the UK imports about a quarter of what it

consumes, thus presumably about a quarter of products are import substitutes, thus, while it is not strictly correct to do so, this point will be ignored.

Thus remittances will be counted as a cost here. As to the total amount remitted from the UK annually, estimates seem to vary widely (see endnote 4). Evidence is cited in this endnote suggesting the remittances for two national groups (Indians and Poles) are around £5,000 a year per person. If this figure is typical for the entire immigrant community, the grand total for remittances from the UK will be around £30bn a year: about ten times the official estimate.

Whatever the figure is, it is over simple to count the figure as the amount by which real incomes of natives are depressed. If one takes the pessimistic Wynne Godley view of British external trade performance, then £xnb of remittances might arguably depress the real incomes of natives by more than £xnb. On the other hand if it is assumed that the elasticity of supply and demand for British exports and imports are around unity, then the real loss of income is around a third of the gross remittance figure.

A token gross remittance figure of £3bn will be assumed here, which gives a token real loss of income of £1bn. As will be clear, there is work to be done in this area.

**Conclusion: Immigrants cost the UK £12bn a year.**

The immigrant fiscal surplus with which we started was about £4.9bn. Immigrants necessitate investments which cost natives £10.3bn a year, giving a net cost of £5.4bn. Add to this the cost of immigrant crime (£3bn), remittances (£1bn) and half the cost of educating the children of mixed parentage (£2.6bn) and the final total is £12bn.

It would be easy to add another £1bn. The security forces spend about £1bn countering terrorism, though a portion of this must be attributed to Northern Ireland and a portion could be attributed to the Iraq war. There is the “Ethnic Minority Achievement Grant” (£169m), “English for Speakers of Other Languages” programme (£280m), translation services (£100m), and a string of other items listed by Coleman. Some of these items are contentious: certainly not all of them can be added to the bill.

The above £12bn is tentative because most of the figures or quantities used in arriving at the £12bn are informed guesses rather than accurate measurements. Moreover, there is evidence that some of the official figures on which the workings here are based are very inaccurate. That is the correct figure could easily be half or double the £12bn.

Finally, to repeat a point made at the outset, no objections are raised here to migration which deals with genuine skill shortages. The latter, however, explains only a very small proportion of migration to the UK. The bulk of migration is essentially a mass movement of people which does little for the UK other than expanding the population of an already over-crowded island. The £12bn represents the cost of this mass movement.

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**Endnote 1: The political nature of HO.**

HO makes much the of immigrants' fiscal surplus. It is important here to distinguish between two ways of measuring the surplus. There is the Home Office preferred way which involves **not** subtracting the cost of educating immigrants' children from the surplus. Secondly there is the way Migrationwatch and Sriskandarajah measure it, which **does** involve the latter subtraction.

Immigrants are almost bound to produce a fiscal surplus (as measured the Home Office way) because the host country does not paid for the education of immigrants. The only exception is immigrants arriving as young children, and they make up less than five percent of immigrants.

So what does the fiscal surplus in this sense prove? Almost nothing. This fiscal surplus is about as revealing as pointing out that there are fiscal advantages to be had when people die shortly after retiring: government does not have to pay state pensions in respect of such people. The whole fiscal surplus idea wouldn't by any chance be a wheeze to make immigrants look good, would it?

Second, HO makes much of the ludicrous argument that immigrants bring "economic growth" in that immigrants swell the population. Well the average school child has worked out that the more people there are in the country, the

bigger the economy, which is all that the latter “economic growth” point amounts to. Why this “economic growth” is of any benefit to natives, HO does not explain. Nor do the many left of centre journalists who dutifully repeat this nonsense.

With a view to bolstering its case, HO tells us that “Work by the National Institute of Economic and Social Research suggests that around 17 per cent of economic growth in 2004 and 2005 is attributable to immigration”. (HO, p.3). Inspection of the relevant NIESR work (Riley) reveals essentially nothing but a repetition of the claim that the more people there are in the country, the bigger the economy.

The effect of immigrants on **output per head** is the important issue. HO and Riley do address this, albeit without admitting the irrelevance of the “economic growth” point.

To be fair, it is probably not stupidity that induced the Home Office to promote the above “economic growth” argument: it was probably political deviousness. They knew it was a hook, line and sinker that many people would swallow. They knew the average left of centre journalist would repeat the message verbatim. As to why the NIESR repeated the message, the explanation is probably that there are academics in the NIESR who, like many academics, aim to further their careers by maximising the quantity of what they publish, with not too much regard for the quality.

In short, HO is a piece of pro-immigration propaganda. It is a different kettle of fish to the other Home Office work referred to here: Gott.

For a more detailed criticism of HO, see Rowthorn (2007,B).

**Endnote 2: Scholefield.**

Scholefield is to be congratulated on drawing attention to the immigrant investment point. But some of his calculations are questionable. He subtracts the UK's annual capital consumption (£123bn) from capital formation (£190bn) which gives a net capital creation figure of £67bn. From this he subtracts immigrants' annual remittances which gives a figure for net capital contribution per year of £988 per year per immigrant worker. He then observes that it will take an extremely long time for immigrants to build up their fair share of capital (£140,000 per worker).

The main flaw here is the £67bn: what would happen in an economy where there was no net capital formation, a far from unrealistic scenario? The £67bn becomes zero, which rather throws the workings awry. For example an economy where firms had no need for increased quantities of capital, and where everyone was happy with the size of house they had, might not need any net capital formation. And for another example, an economy with a declining population might well not need any net capital formation.

Also the end result of the calculation needs to be tied up with and subtracted from the Government's claim about immigrants making a net fiscal contribution of £2.5bn a year. This is done in the main text above.

**Endnote 3. Immigrants raise interest rates.**

Received wisdom is that immigrants reduce interest rates, which conflicts with the above points about immigrants raising interest rates (because of the need to fund infrastructure and other investments). There are several answers to this.

1. Stories in the left of centre press about immigrants reducing interest rates normally have more to do with a desire to talk up immigration than with the evidence. For example a Price Waterhouse paper on the subject (Hawksworth) said "Quantifying this effect is very difficult given the large range of other factors affecting inflation and interest rates" (p.31). But when this paper is reviewed in The Guardian (Balakrishnan) the sub-headline reads: "Influx of labour 'has kept interest rates down'". The Price Waterhouse paper was based largely on a Bank of England study (Blanchflower). The latter is equally uncertain about the interest rate effects of immigration (p.23-5).

Moreover, even if immigration does cause an interest rate reduction, the benefits for the population at large are not impressive. Of course interest rate reductions are normally good news: they bring economic expansion and reduced unemployment. However an interest rate reduction consequent to immigration is quite different. The arrival of a bunch of immigrants causes slack in the immigrant sector of the labour market (until members of this bunch have found work). The arrival also causes slack in the native sector in that natives are displaced by immigrants. Thus an interest rate reduction consequent to immigration is designed to create jobs for immigrants and those who have been made jobless by immigrants! And that's it. There is no jobs bonanza for anyone else.

In short, an interest rate reduction consequent to immigration is very different to normal interest rate reductions. This point is invariably omitted in the above type of press report.

2. Reducing interest rates is an odd way of creating jobs for immigrants in that, given a rise in the population (from immigration or any other cause), the monetary base will presumably need to expand pro rata. If so, the logical response to immigration is a dose of unfunded budget deficit, rather than an

interest rate reduction. Banks will then expand the amount of “bank created credit” that is built on the monetary base, and as a result, demand will rise. (Anyone who wants to object to this on the grounds that expanding the monetary base by Government buying back National Debt will not have the same effect as an unfunded budget deficit, please see footnote.<sup>5</sup>)

3. Immigrants have been arriving in a steady stream in the US for two hundred years. Mysteriously, interest rates have not steadily declined for two hundred years. Moreover, the US monetary base is not the same in real terms as a hundred years ago (no big surprise there!). It has increased by about the same percentage as the growth in GNP (which in turn is partially determined by the size of population). Thus in practice, the additional demand required to keep an expanding workforce employed would seem to come from expanding the monetary base.

4. The reason that various studies manage to “show” that immigrants reduce interest rates is that this result stems automatically from the initial assumptions with which such studies start. To illustrate, step 1. is to assume that interest rate reduction is the only tool Government has for raising demand. Step 2. is to observe that immigrants mean the economy has some slack. Step 3. is to say that this slack means an increase in demand is required. Step 4. lo and behold, an interest rate reduction comes riding to the rescue. This proves nothing.

5. Having said that the rise in demand necessitated by immigration comes from monetary base expansions, the population must nevertheless face a finite interest rate rise as a result of immigrant investments because someone somewhere has to be induced to forego consumption in order to fund the investments.

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<sup>5</sup> Good point. Buying back the National Debt (or failing to roll it over) puts money into the hands of savers. Whereas an unfunded budget deficit puts money into the hands of a cross section of the population, including spendthrifts (to put it crudely). It is possible the former does not raise demand. This was why it was suggested in the main text that the monetary base expansion is done the budget deficit route.

Alternatively, if interest rates are not officially raised, various would be borrowers will find credit is just not available because those making immigrant investments have offered marginally better terms for the funds concerned, and have collared these funds. This in effect is an interest rate rise.

**Endnote 4. Evidence as to the scale of remittances.**

Migrationwatch in one of its publications gives £3.8bn as the remittance figure, quoting the National Statistics balance of payments “Pink Book” for 2004 (table 5.1). However, what the Pink Book actually seems to refer to in connection with the £3.8bn is a figure for payments that **includes** remittances, which leaves open the question as to exactly what the figure for remittances is. Other estimates for the correct figure seem to vary widely, and as follows.

i) One Indian banker claims that £3bn is remitted in India alone every year (<http://www.tmponline.org/?p=41> ).

ii) A Department for International Development study gives the figure as just £1.1bn. ([http://www.livelihoods.org/hot\\_topics/docs/UK\\_Remittances.pdf](http://www.livelihoods.org/hot_topics/docs/UK_Remittances.pdf)

iii) And the European Commission’s statistics body, “Eurostat”, gives 5.9bn euros in 2006, which more or less ties up with the above £3.8bn. (<http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/07/152&format=HTML&aged=0&language=EN&guiLanguage=en> ).

(iv) A report in the Daily Mail quotes the Polish Central Bank as saying that Poles in the UK remit £1.8bn a year, at the same time as pointing out that this is probably an underestimate because of the sums carried back to Poland in cash. (Mail, 5.1.07, p.46.)



(v) Herron p.4 gives the range as being anywhere between £170 and £1,999 per immigrant. (about £1 – 12bn).

The above figures for remittances in the case of Poles and Indians work out at about £5,000 a year per person (Indian and Pole). This is an almost unbelievable figure. But if it is correct, and similar figures apply to all other national groups, the total remittance figure would be around £30bn a year.

The £5,000 figure is not totally unbelievable given the scale of Mexican remittances from the US. The Economist (6-12<sup>th</sup> Oct. 2008, p102) gives \$90bn as the figure. There seem to be roughly 9 million Mexicans immigrants in the US, which means a remittance figure of \$10,000 per head per year.

The above large variations in remittance estimates make picking any figure difficult. A token £3bn a year will be assumed, which gives a loss of real income for natives of around £1bn a year.

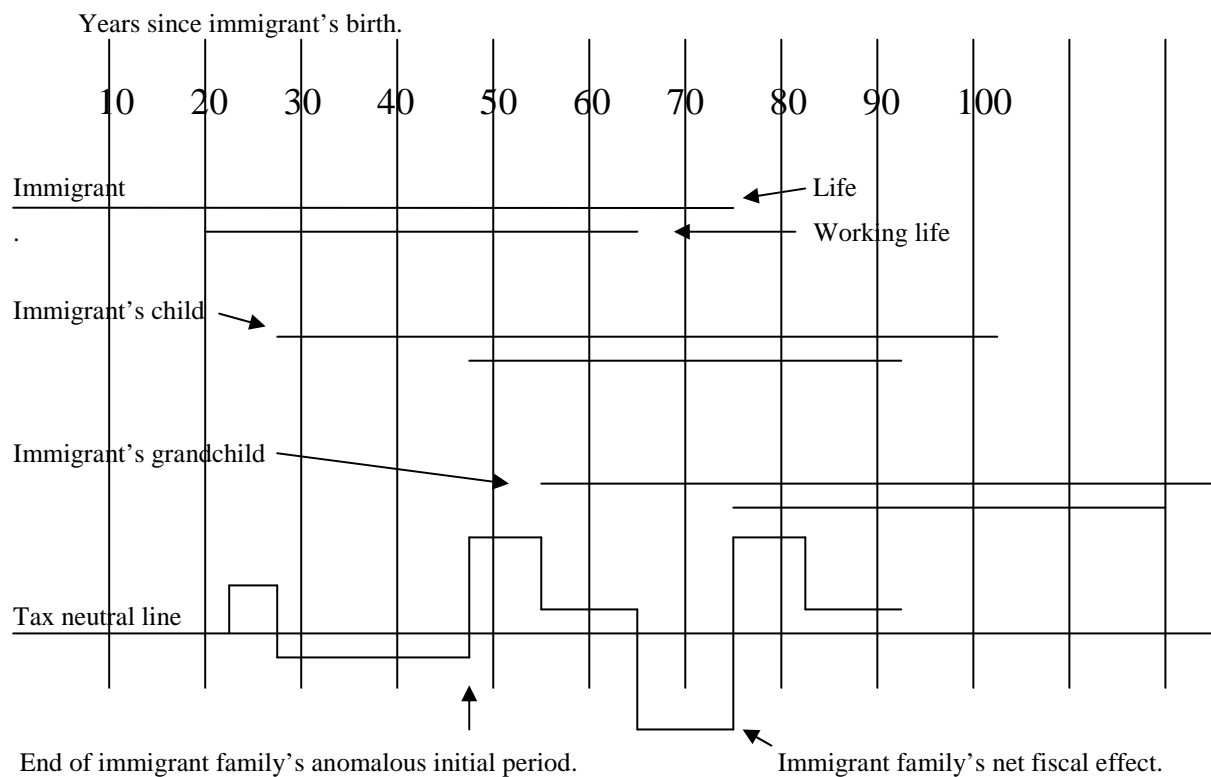
**Endnote 5. Summary of calculations.**

Total investments in UK	£2,835bn
Less private housing	£1,042bn
Equals	£1,793bn
£1,793bn divided by 60 million UK population:	£30,000
Annual investment needed is £30,000 x annual net immigration ( 190,000 ) which equals	£5.7bn
Multiply by 1.8 mainly on account of number of children that immigrants have (see under “Adjustments to investment figure” for details). 5.7 x 1.8:	£10.3bn
Add remittances (£1bn) and cost of crime (£3bn)	£14.3bn
Less IPPR’s immigrant fiscal surplus of £818 per immigrant, times say 6 million immigrants = £4.9bn	£9.4bn.
Add half the cost of childrens’ education where one parent is immigrant and one native: £2.6bn	£12bn

**Endnote 6.A typical immigrant family’s fiscal effect.**

The diagram below illustrates the fiscal effect of a fairly typical immigrant family. The following assumptions are made.

1. The typical immigrant arrives at the age of  $22\frac{1}{2}$ . (The actual average age of non-British immigrants seems to be around 24 to judge from Dobson p.49)
2. Each immigrant is assumed to have a replacement number of children, i.e. one.
3. The immigrant's child is born when the immigrant is  $27\frac{1}{2}$ .
4. People start work at 20, retire at 65 and die at 75.
5. The latter assumption means that everyone spends 45 years contributing to the public purse and 30 years withdrawing from it. This means that a person's withdrawals during a "withdrawal" year will be 1.5 times contributions during a contribution year. The vertical distance of the "net fiscal effect" line from the tax neutral line is to scale, i.e. it reflects the amount of the fiscal contribution or withdrawal from the public purse made by the family in each year.



**Endnote 7. Earnings of different national groups.**

The source for the figures on earnings of different national groups is [www.ethnic.ndo.co.uk/ImmPay.doc](http://www.ethnic.ndo.co.uk/ImmPay.doc) which itself is derived from an IPPR work, *Britain's Immigrants, An Economic Profile*, (2007), <http://www.researchonline.org.uk/fskills/search/go.do?action=document&ref=B6326>

The figures are derived from tables 4.1, 4.2, 4.3, 5.1, 5.2 and 5.6. in the IPPR work.

**Endnote 8. Immigrants' children double the investment burden.**

Gott, p.8, Fig 1 shows the age distribution of immigrants, compared to natives. Natives have an average of 1.7 children per couple, and as would be expected from the latter figure, the number of people in each 5 year cohort for natives (e.g. 10-14 year olds) is much the same for "child cohorts" as for "middle age" cohorts. In fact the child cohorts are slightly smaller because natives have 1.7 children on average rather than a replacement 2. In contrast, immigrants are seriously short of children in this Fig 1. For example the numbers in the two 5 year cohorts between 5 and 15 years of age is about a third (33%) the number in the middle aged cohorts. From this alone it might seem that immigrants have a third of their children before arrival in the UK. In fact immigrants have an average of 2.7 children. Allowing for this, it turns out that immigrants have just under 30% of their children before arriving in the UK (let's call it 30%).

Thus the typical immigrant couple with their “0.3” children will expand to a family of 4.5 quite soon after arrival. 4.5 is about double 2.3. This effectively doubles the investment burden.

Numerous refinements could be made to this “double” figure. For example, families typically have three generations alive at any one time, from which it might be concluded that the figure should be trebled, not doubled. On the other hand, as pointed out above, parents effectively pass their share of public assets on to their children; and at a guess the “passing on” phenomenon will have started by the time the immigrant family has three generations.

There is also the point that it is not just immigrants, on the strict definition of the word, who have a relatively large number of children: it is also second and third generation immigrants. This means a further investment burden for later years. However, this point will be ignored, and we will stick with the above “double”.