

October 2013

Is immigration a reason for Britain to leave the EU?

By John Springford

Is immigration a reason for Britain to leave the EU?

By John Springford

- ★ Britain's EU immigrants are a boon, not a burden. They are young and more likely to be in work than Britons, and thus pay more in taxes than they take out in benefits and public services. They do, however, push up housing costs – a problem Britain must confront.
- ★ Contrary to popular opinion, EU immigrants are far less likely to take up benefits than the British population. 'Benefit tourism' is a canard: the great majority of EU immigrants come to Britain to work.
- ★ If Britain left the EU, future British governments would be more likely than not to curb immigration from the rest of Europe. But as baby-boomers retire and jobs are created at the high- and low-skilled ends of Britain's labour market, demand for immigrant labour is likely to grow, not shrink.

The free movement of people – one of the 'four freedoms' of goods, capital, services and labour – is a fundamental principle of the EU's single market, which seeks to build a borderless European economy. Member-states open their labour markets to immigrants, knowing that the others will reciprocate. However, since the EU's enlargement to the east in 2004, many Britons feel that the reciprocal arrangement has broken down: free movement is no longer perceived to be an arrangement that works for the mutual benefit of both Britons and other Europeans.

This policy brief is part of a series on the costs and benefits of Britain's membership of the EU, and the economic consequences of withdrawal from the Union. The research forms part of the CER's Commission on the UK and the EU single market, which will report in the Spring of 2014. British Prime Minister David Cameron, if he wins the general election in 2015, will renegotiate Britain's relationship with the EU before a referendum in 2017. EU migration will be a central issue in a referendum campaign, and so this paper asks whether Britons' fears about EU migration are supported by economic evidence; what the potential demand for EU labour over the next decade might be; and how closed a Britain outside the EU might become to immigration.

In Britain's last referendum campaign on membership of the then European Economic Community (EEC) in 1975, its free migration rules barely featured. Most of the other member-states were wealthier than Britain, and few people thought that European migrants would come to Britain in large numbers looking for work. Anti-immigrant sentiment may have been prevalent at the time, but

it centred primarily on non-European migrants from Britain's former colonies.

Since 2004, however, the free movement of European labour has become a highly controversial issue. The UK, expecting the resulting influx to be relatively modest, was one of just three EU countries not to impose transitional restrictions on migrants from the member-states that joined in that year (the so-called A8). In the event, migration from the A8 was much larger than the UK had expected: there are currently around 1.1 million people from these countries in the UK, some 660,000 of whom are in work.¹

On average, per capita income in the eight new member-states is around one-third that of Britain. (Romania and Bulgaria, whose workers will gain access to the British labour market in January 2014, are poorer still.) Such large income disparities make the UK a potentially attractive destination for A8 immigrants. Many A8 workers are employed in British jobs that pay the minimum wage, or just above, but their earnings are much higher than they would receive at home.

¹: Migration Observatory, 'Migrant flows from the A8 and other EU migrants to and from the UK', April 2013.

In addition, EU rules require member-states to offer European immigrants broadly similar access to state benefits and services. As a result, many Britons believe that immigrants from the EU take jobs from British workers,

or reduce their pay, and that they unfairly receive financial benefits and public services, funded by British taxpayers. Does the evidence support these views?

How EU migration might affect Britons' employment prospects

The EU's free movement rules are based on liberal economic theory: if a worker can earn more money in another country, it is better for the worker and the foreign employer for migration to be unhindered. Migratory flows expand Europe's economy as a whole, as workers move to where they may be most productively employed. Yet migration poses a dilemma for the British government. While immigration might make the country's economy larger, it may have no impact on the incomes of the pre-existing British population – or it may, in theory, reduce it. The government is caught between competing priorities: that of boosting economic output and helping businesses (which like to have a larger supply of labour from which to choose), and that of protecting workers, whose individual prospects may worsen as a result of immigration. In short, immigration may raise national income, but the economic case should rest on its impact on Britons' incomes.

Increased immigration inevitably raises output, unless every immigrant displaces a British worker. More people will be working in Britain, so output should be higher. The higher tax take from immigrant labour allows more government spending or lower tax rates. Yet the costs or benefits of immigration for the British population are not easily measured by its effects on economic output alone. If migrants depressed Britons' wages or pushed up the native unemployment rate, even if output were higher as a result of immigration, the average British worker could be worse off.

Therefore, a central question for any cost-benefit analysis will be whether EU migrants take jobs from Britons, or reduce their wages: in essence, are immigrants competing with Britons or are they complementary to them? If they are complementary, immigrants will make the host population more productive, by doing work that Britons do not want to do or do not have the skills for, or by introducing new ideas or technology. They may free British workers to specialise. This process would then raise the wages of both immigrants, who are more productive than they would be at home, and indigenous workers, who are freed to specialise.

In practice, of course, both competition and specialisation happen at once. Some workers will lose out, as immigrants will always compete against some native workers. But if immigrants are on average complementary, it makes economic sense to let them in, as it will raise the productivity, and thus the average income of the host population.

With those principles in mind, are EU immigrants competing with British workers, or complementary to them?

“A8 immigrants migrated to Britain in very large numbers from 2004, adding 2 per cent to the labour force between 2004 and 2011.”

The evidence on wages and jobs

The number of people in England and Wales who were born elsewhere in Europe stands at around 2.7 million. Of these, 1.6 million come from the old EU-15, and the European Economic Area countries – Norway, Liechtenstein and Iceland – whose citizens are all free to work in the UK. (Henceforth, this group will be referred to as 'western Europeans'.) The remaining 1.1 million come from the A8 countries.²

These two groups of immigrants have different average ages and levels of education. Western Europeans are slightly younger than the average Briton – 51 per cent are under 40 years old, compared to 49 per cent of British

people. A8 immigrants are much younger: 53 per cent are under 30, and 85 per cent are under 40 years old.³

Both western European and A8 immigrants are more highly educated than the average Briton – more have finished secondary education, and more have university degrees.⁴ But their involvement in the British labour market is very different.

A8 immigrants migrated to Britain in very large numbers from 2004, adding approximately 2 per cent to the labour force between 2004 and 2011. Compared to western Europeans, many did not speak English well, and being

2: Migration Observatory, 'Migration flows of A8 and other EU migrants to and from the UK', April 2013.

3: Office of National Statistics, Labour Force Survey, 2012 data.

4: Madeleine Sumption and Will Somerville, 'The UK's new Europeans: Progress and challenges five years after accession', Equality and Human Rights Commission report, 2009.

young, many lacked marketable skills in the British labour market, despite being comparatively highly educated.

So the majority found jobs in low-skilled, low-paid work. Chart 1 (page 3) shows the proportion of Britons, western Europeans and A8 nationals in different occupations. In rough terms, the more highly-skilled and better-paid jobs are on the left, and the lower-skilled jobs on the right. Western European immigrants tend to be working in more highly skilled jobs than the average Briton. Sixteen per cent of western Europeans direct or own businesses, compared to 10 per cent of Britons. A higher proportion work in sectors such as science, technology and engineering, or work as public service professionals such as doctors, teachers and nurses, than Britons. By contrast, a higher proportion of A8 nationals work in skilled trades (especially construction) than do Britons, and an even higher proportion work in low-skilled manufacturing, construction and services jobs.

Has this influx of higher- and low-skilled workers put downward pressure on the wages and job prospects of British graduates and low-skilled workers?

Various econometric studies, which are listed in Table 1 (page 4), have found little evidence that the large flows of A8 immigrants after 2004 increased unemployment among Britons. Similarly, little evidence has been found that A8 migration has reduced Britons' average wages, or the wages of the poorly paid. One study found that A8 immigration is associated with higher average wages. Another found a small negative impact on employment of British nationals. But both are outliers.

“Various studies have found little evidence that the influx of A8 immigrants from 2004 increased unemployment among Britons.”

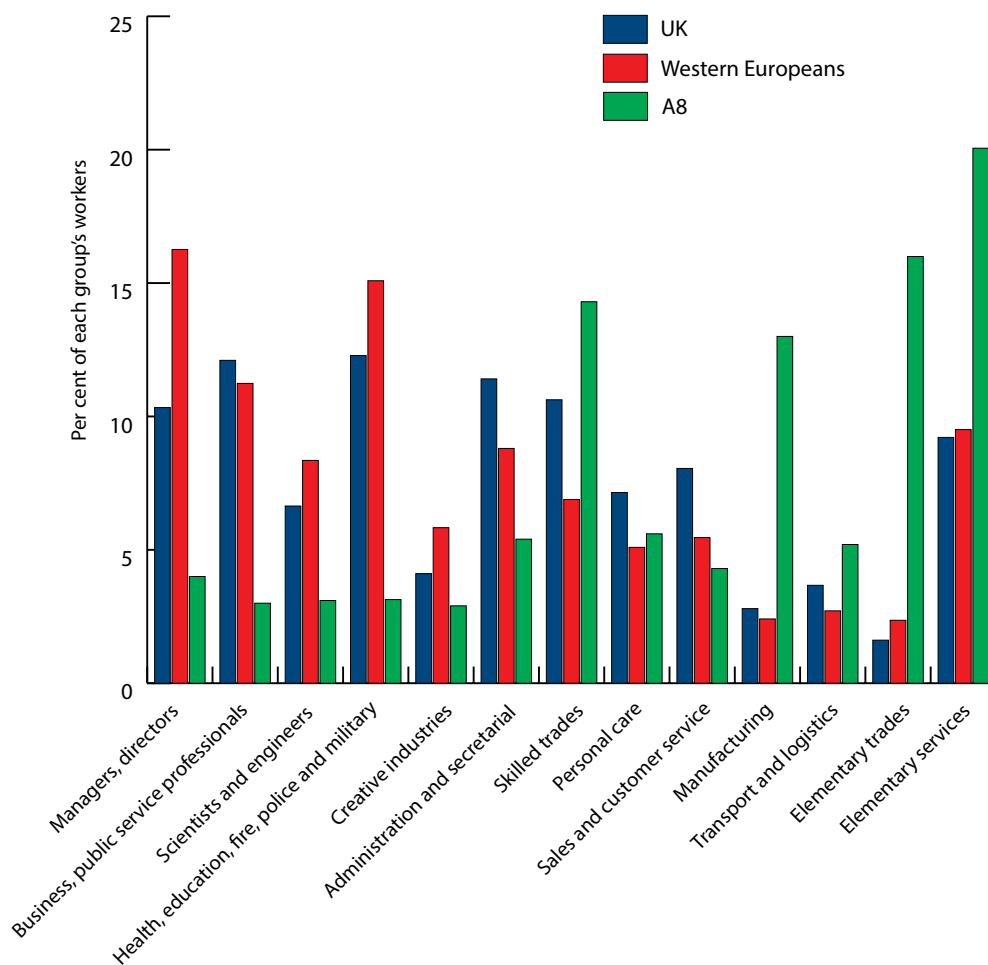


Chart 1:
Occupations of
EU immigrants
Source: Labour Force
Survey, 2004-2012.

Table 1:
Impact of A8 immigrants on Britons' employment and average wages, and on the UK wage distribution

Source: Migration Advisory Committee, 'Analysis of the impacts of migration', 2012.

Study	Employment/wages	Estimated impact
Portes and French (2005)	Employment	A one percentage point increase in A8 worker registrations in local authorities is associated with a 0.09 per cent increase in native unemployment in that area
Gilpin et al (2006)	Employment	Not statistically significant
Lemos and Portes (2008)	Employment	Not statistically significant
Lemos (2010)	Employment	Not statistically significant
Migration Advisory Committee (2012)	Employment	Not statistically significant
Lemos and Portes (2008)	Average wages	Not statistically significant
Lemos (2010)	Average wages	A one percentage point increase in the A8 migrant-working age population ratio is associated with an increase in natives' average wage of approximately 3.4 per cent
Lemos and Portes (2008)	Wage distribution	Not statistically significant
Lemos (2010)	Wage distribution	An increase of one percentage point in the A8 migrant-working age population ratio is associated with a 3.9 per cent increase in the wages of workers in the 60 th percentile of the distribution

These findings are in line with studies that have examined the impact of both EU and non-EU immigrants, not just A8 workers, on Britons' employment prospects. The majority of these studies also found that immigration in total had little effect on native employment or on average wages. They did find, however, that it increased wage inequality slightly.⁵

A8 immigration, then, has had little discernible effect on British workers' wages – either positive or negative.

What about western Europeans? Policy-makers and analysts have paid less attention to them. Unlike A8 immigrants, the inflow of western Europeans has been slow and steady, with an average annual net immigration rate of 20,000 between 1991 and 2011.⁶ This has endowed the British economy with a slowly growing stock of highly skilled workers. One cause of long-run economic growth is the quality of the human capital stock: the more highly skilled the workforce, the higher its productivity, which

raises output. Thus western European immigration has had a positive impact on British GDP.

But what impact has this had on the employment prospects for highly skilled natives? While direct evidence on the impact of western Europeans on the UK economy is hard to come by, the evidence for high-skilled immigrants in general suggests that they are complementary to, and not substitutes for, British workers, and are thus likely to raise their wages.

The strongest reason why highly skilled immigrants are complementary is that they bring with them knowledge and technical expertise that allows British workers to become more productive. In the United States, for example, skilled natives are more likely to work as managers and executives, while skilled immigrants are more likely to work as scientists, engineers and statisticians. These skills are in short supply in the domestic labour market.⁷ As Chart 1 shows, the same

5: Christian Dustmann et al ('The effect of immigration along the distribution of wages', 2008) found that 10,000 immigrants reduced wages of the bottom 10 per cent of earners by about £1 per year, but increased average wages by £4 per year, and the top 10 per cent of earners' wages by £5 per year. Stephen Nickell and Jumana Salaheen ('The impact of immigration on occupational wages: Evidence from Britain', 2008) found larger impacts in particular occupations: in semi-

or unskilled occupations, 10,000 low-skilled immigrants reduced wages by about £8 per year.

6: Office of National Statistics, Long-term international migration data, 1991-2011.

7: Giovanni Peri and Chad Sparber, 'Task specialisation, immigration, and wages', 2008.

is true of Britain. Highly skilled immigrants also bring in knowledge and technology that makes firms more productive. For example, highly skilled immigrants work disproportionately in developing and deploying information technology, which tends to raise the productivity of other workers.⁸ Multinational companies operating in Britain bring in workers from other countries in intra-company transfers to a greater degree than elsewhere in the EU. This allows firms to make use of the worker's knowledge about their home country's market.⁹

As A8 migration does not appear to reduce the wages of the host population, and high-skilled immigration from western Europe is likely to slightly increase Britons' productivity (and therefore wages), migration from the EU has been beneficial to the UK economy. But will Britain continue to wring benefits from EU immigration? To make such a judgement, some assessment of the future path of the demand for skills in the UK is needed.

The hollowing out of the UK labour market and demographic change

Over the last three decades, the British labour market has, in the jargon, hollowed out. Most new jobs have been created at the upper end of the skills scale, and in low-skilled services work. Technological change is the main cause. The microchip has enormous disruptive power, replacing semi-skilled labour with information technology and machinery. For instance, employment in book-

keeping and skilled manufacturing, which computers and computerised machinery can do more productively, has been in decline. Meanwhile, the number of highly skilled jobs has been on the rise. So has work in services such as personal care, retail and hospitality. Such work is not easily replaced with technology. (See Chart 2.)

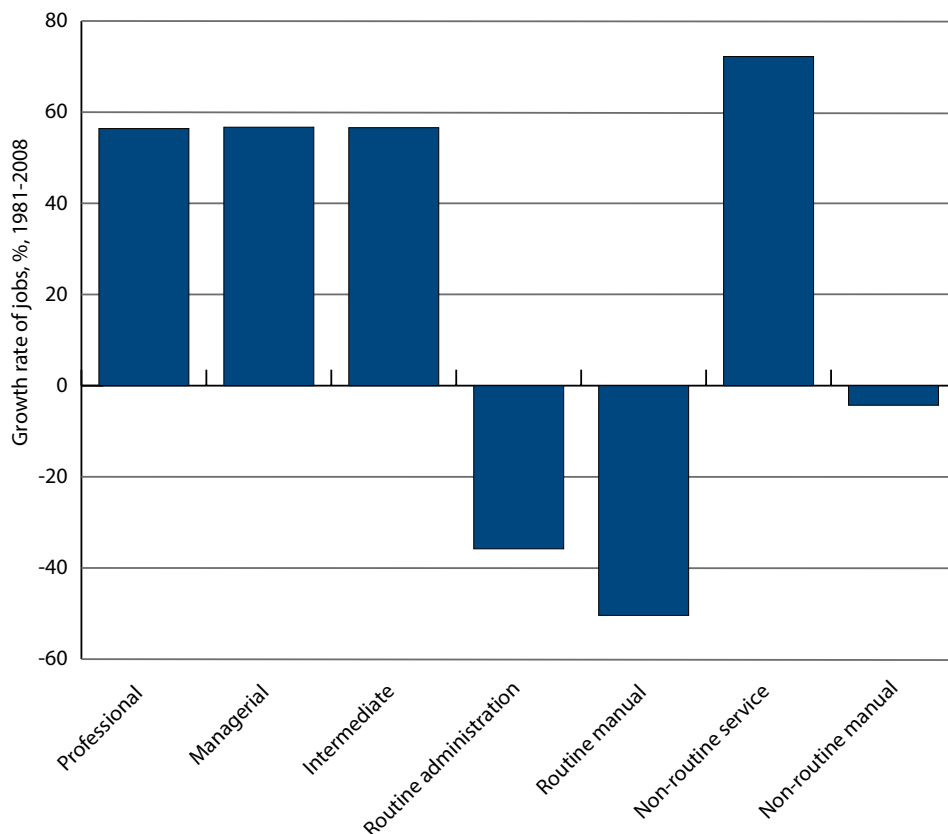


Chart 2:
Growth in jobs by occupation, 1981-2008

Source: Craig Holmes and Ken Mayhew, 'The changing shape of the UK job market and its implications for the bottom half of earners', Resolution Foundation, March 2012.

As demand for high- and low-skilled work has been growing, so has the demand for immigrants from the rest of the EU who can fill the jobs. Typically, western Europe provides a supply of workers in highly skilled managerial, financial and public services occupations, while the A8 supplies workers for lower-skilled jobs in construction, manufacturing, and services.

It is difficult to predict the future patterns of demand for skills. But there is little reason to believe that this pattern of demand for immigrant labour will change. If anything, it is likely to get stronger, if British demographic change is taken into account. The UK Commission on Employment and Skills estimates that 1.5 million jobs are going to be created by 2020 in

8: David Autor et al, 'Computing inequality: Have computers changed the labour market?', 1998; Timothy Bresnahan et al, 'Information technology, workplace organization and the demand for skilled labor: Firm-level evidence', 2003.

9: Marion Frenz and Grazia Letto-Gillies, 'The impact on innovation performance of different sources of knowledge', 2009.

management, business, science and technology, and in the public services – occupations in which western Europeans are highly represented (see Chart 3). The number of new low-skilled jobs, apart from those caring for the increasing ranks of the elderly, will decline: manufacturing and administration will see further job losses over the next decade. The chart also shows how many workers will be needed to replace retirees in different sectors. Britain's baby boom generation is on the verge of retirement, leaving behind a smaller working age population. Some jobs will have to be filled by immigrants. Demand for workers to replace retirees will be strong in low-skilled administration and services,

in manufacturing, and in skilled trades, occupations in which A8 nationals are over-represented. In these sectors, baby-boomers will retire so fast that they will outstrip the rate at which employment in these sectors is falling. Meanwhile, western Europe is one source of workers to replace highly skilled retirees, as well as filling new jobs created in skilled sectors of the economy.

Despite public hostility, the evidence suggests that immigrants from the EU improve the wage prospects of the host population on average, and employers are likely to become more reliant on EU immigrants as the country ages.

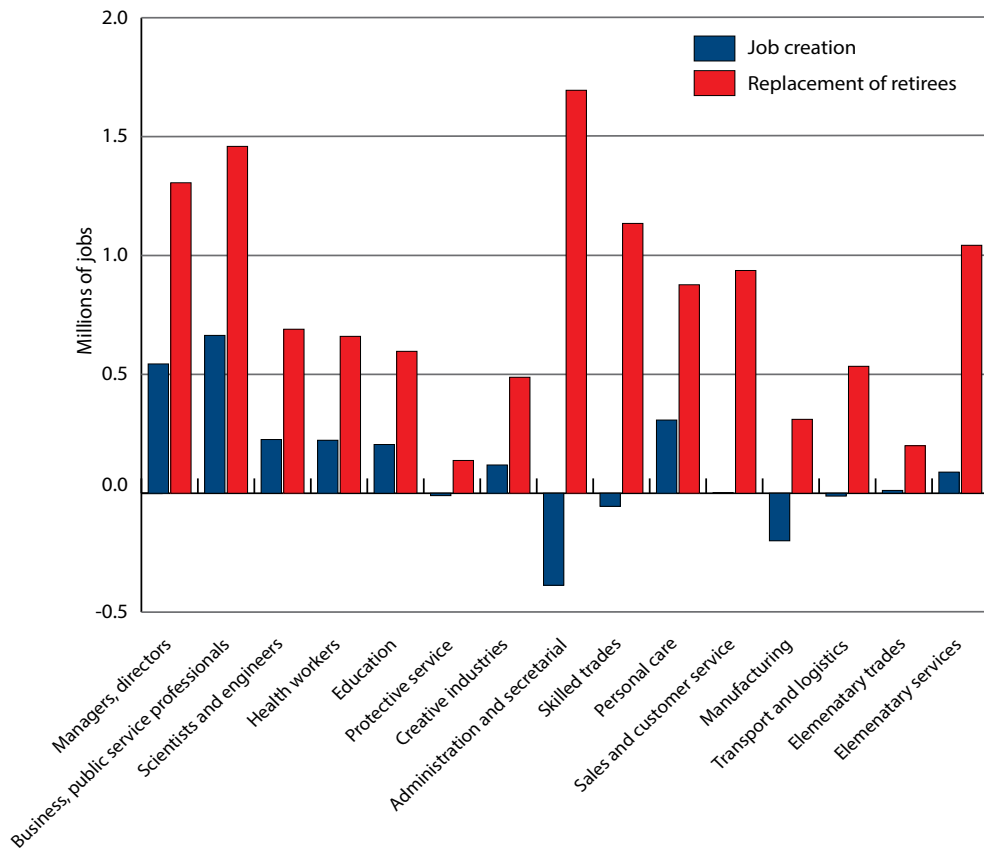


Chart 3: Job creation and the replacement of British retirees, 2010-2020
Source: UKCES, 'Working futures, 2010-2020', 2012.

The impact of EU immigration on housing and public services

The benefits identified above must nonetheless be set against the impact on public services and housing. EU immigrants' fiscal impact is benign: they are net contributors to the Treasury. In its recently published International Migration Outlook, the OECD lists three factors that determine whether an immigrant is a net contributor or net beneficiary. First, the age of immigrants: young immigrants of working age are likely to be net contributors until they are between 40 and 45 years of age, as they receive little health or pension expenditure (two of the three biggest expenditure items for most governments). Second, their employment rate: if the immigrant employment rate is higher than the

native population's, then they are less likely to receive welfare benefits – and if immigrants have come to work, rather than to be reunited with their families, they are more likely to be net contributors. And third, their skill level: if immigrants are highly skilled, they are more likely to be employed, pay more in taxes, and receive fewer benefits.

EU immigrants are on average younger than Britons; they are more likely to be in employment; and they are overwhelmingly in Britain to work rather than to join a family member. On average, therefore, they are net contributors to Britain's public finances.

However, those immigrants from the A8 that settle in the UK, rather than returning home after a short period of work, are young and increasingly having children. Immigrants from other countries are also contributing to a baby boom that is raising demand for school places.

Britain's population has grown by 20 million since 1960; a rise of nearly 40 per cent.¹⁰ Immigrants and their higher birth rate make up the majority of this population growth. While immigration is one reason for the large increase in the number of British households, so too is the rise in the number of British households headed by one adult: Britons are increasingly living on their own, or as single-parent families. Meanwhile, the country has failed to build enough housing to keep up with demand, especially in fast-growing areas like London and the south-east of England. As a result, house prices and rents have risen faster than incomes, putting downward pressure on Britons' living standards, as an increasing proportion of their disposable income is spent on housing.

Until the accession of the Central and East European member-states in 2004, immigration from the EU made up a small part of Britain's population growth. Since then, however, net immigration from the EU has made up 45 per cent of the total net inflow.¹¹ A8 countries will be poorer than Britain for many years, and so incentives for people to move to Britain will remain strong. Immigration has also picked up from peripheral eurozone countries – Spain, Ireland and Portugal, in particular – where unemployment is high. Thus EU immigration will continue to raise demand for British housing in the future.

But by how much? Using the UK Department of Communities and Local Government's (DCLG) data on housing demand, which are based upon assumptions about fertility, life expectancy and immigration, it is possible to make a rough estimate.¹² According to their (very conservative) assumptions, long-term net immigration to England, where the vast majority of immigrants live, will be 157,000 per year to 2033. This translates into an extra 83,000 extra households formed each year by migrants, each of which needs somewhere to live. If we assume that EU net migration continues at the average rate seen between 2004 and 2012 – 87,000 per year – the DCLG's assumptions about the number of immigrants per household suggest 46,000 extra EU

immigrant households a year. That is 20 per cent of all household formation in England.

However, recent studies of the impact of immigration on local house prices has found that it has caused them to fall.¹³ There are two reasons. First, migrants tend to live in more cramped conditions than do Britons. Second, the researchers found that when immigrants move into a local area, Britons move away, and so demand for housing falls in the short term. However, Britons will push up prices in the areas they move to, and in the long run, migrants are likely to move into less crowded accommodation. This will push up housing costs – unless Britain builds more houses – especially in the south-east of England. It is impossible to say whether this effect will be larger than the productivity gains that arise from EU immigration, but the rise in housing costs may erode immigration's benefits in the long term, if housing supply does not match rising demand.

“There will be 46,000 extra households a year formed by EU migrants to 2033: more houses will be needed.”

So what policy should the government pursue? The most rational would be to take advantage of the labour market benefits of EU immigration by keeping the border open to them; liberalise planning laws to ensure housing supply matches demand; and use some of the extra revenues that immigration brings to invest in creating more school places.

The government's dilemma – keeping borders open for economic reasons, or closing them to soothe public hostility – is likely to become more acute, not less. These policies will be politically challenging, requiring the government to confront a hostile public and media, and challenge the privileged position of homeowners, whose interests lie in higher house prices. But these policies would maximise the benefits that EU immigration brings. Perhaps sensitive to this, the government has so far hinted that its reform agenda for the free movement of labour will be limited to restricting EU migrants' access to benefits. Are they right to try to clamp down on welfare payments?

Should Britain try to reform free movement?

The great majority of European immigrants come to Britain to work. The A8 employment rate is higher than

that of British nationals: 83 per cent participate in the labour market, against 77 per cent. More are unemployed

10: World Bank, World Development Indicators.

11: Migration Observatory, 'The impact of migration on UK population growth', 2012.

12: DCLG, 'Household projections, 2008 to 2033', 2010. Data for England only.

13: Filipa Sá, 'Immigration and house prices in the UK', 2011 and Nils Braakman, 'Immigration and property prices in England and Wales', 2013.

– in the third quarter of 2012, 8.2 per cent were unemployed, against 7.4 per cent of British citizens. But migrants are less likely to receive unemployment-related benefits: just 1.7 per cent are on Jobseeker's Allowance, half the rate of take-up among the host population. A far smaller proportion of A8 immigrants receive disability, pension, and child benefits than British people. Very few Central and Eastern Europeans live in social housing, and only 5 per cent receive housing benefit (compared to 8.5 per cent of Britons).¹⁴

Thus, the average EU immigrant is fiscally beneficial. But while the average EU immigrant is a net contributor, some individuals may not be: the British government has argued that some migrants move to take up benefits, not to work, and thus can be called 'benefit tourists'.¹⁵ Yet it has not offered any evidence of the scale of the problem.

Since 2010, the British Labour Force Survey has recorded the month when immigrants first arrived in the country, the length of their unemployment if they do not have a job, and which benefits they are taking up. Thus the scale of the benefit tourism problem can be tested: by gathering the records of all EU migrants who arrived after that date, it is possible to check how many are claiming benefits soon after arriving in the country.

The results show that benefit tourism, if it exists at all, is a tiny problem (see Table 2 on page 9). Only 0.2 per cent claim unemployment benefit but have never worked in Britain. Just 0.4 per cent of EU immigrants are on unemployment benefit six months after arriving in Britain, rising to 0.8 per cent one year after arrival. (And we cannot know why these people have claimed unemployment benefit: they may have worked for a short period and then lost their job, so it is not possible to be sure that they are benefit tourists.) Meanwhile, 6 per cent are unemployed but not claiming Jobseeker's Allowance – immigrants are not rushing to live on welfare. The shares of EU immigrants that claim child benefit and tax credits before one year's residence are higher – 2.1 per cent and 1 per cent respectively – but far lower than British nationals. One-fifth of the British working age population claims child benefit, and a fifth claims tax credits.¹⁶

The longer an immigrant is in the UK, the more likely they are to claim benefits – although these are mostly benefits for people who have children or are on a low income, rather than Jobseeker's Allowance. But this is hardly surprising: as immigrants integrate and make the UK their home, they use the welfare system much as Britons do. But the idea that immigrants come to live on welfare is misplaced.

14: UK Labour Force Survey, 2012 data.

15: *The Times*, 'Cameron lines up Merkel pact over migrant reform', September 6th 2013.

16: Institute for Fiscal Studies, 'A survey of the British benefit system', 2012.

17: *The Times*, 'Cameron targets curbs in migrant benefits in EU reform talks', August 16th 2013.

Nonetheless, in August 2013, David Cameron announced that, if he wins the UK election in 2015, he will seek to renegotiate free movement rules on benefits, as part of his drive to renegotiate the terms of Britain's EU membership.¹⁷

Cameron will seek reform of the 'free movement directive' and the 'social security directive', both passed in 2004, which govern migrants' rights to benefits and public services. The directives establish the rights of EU migrants to move to another country and receive benefits for three months. Thereafter, they must be in work or looking for a job – in Britain's case, this means signing on at the Job Centre and proving that they are actively looking for work – if they are to receive benefits.

The British government could insist that the directives be rewritten to specify the period of time that a migrant must have worked in a country before claiming benefits. But, this could have bad consequences for Britons returning home from another EU country. The treaties and case law make plain that no discrimination in benefits payments may be made against other EU nationals, once they have been classed as habitually resident. So, to comply with the law, British citizens returning home would have to work for the same period of time before being eligible for benefit.¹⁸

“Clamping down on benefits eligibility would do little to stop immigrants coming and may require treaty change.”

In order to overcome this problem, Britain could try to reopen the treaties so that such discrimination were made legal. But this may encourage other countries to start unpicking the legal basis for free movement to satisfy their own citizens' particular peeves about migration. The renegotiation may backfire, not least because Spain might demand that British retirees on the *costas* pay for their own healthcare.

Spain may try to limit migrants' access to healthcare. There are at least 400,000 Britons living in Spain full time, a quarter of whom are enjoying their retirement in the sun.¹⁹ British retirees receive free access to Spanish GPs (their hospital treatment is paid for by the NHS) and after they become permanent residents, Spain pays for their hospital treatment. Their healthcare is costly to the Spanish treasury, which is struggling to balance its books.

18: There is a reform to the free movement directive that is worth pursuing: currently, UK child benefit must be paid to EU immigrants even if their child is not in the UK. The directive could easily be changed to make clear that family benefits may only be paid if the family as well as the worker is habitually resident.

19: World Bank International Migration and Department of Work and Pensions Overseas Pensions Claimants data.

Table 2:
Benefit claims
of recent EU
migrants
*Source: Labour Force
Survey, Q1 2010 to Q4
2012 data.*

Proportion of EEA immigrants who arrived after 2010 who are:	%
Unemployed	7.8
Claiming unemployment benefit	1.9
Claiming unemployment benefit and in the UK for less than 6 months	0.4
Claiming unemployment benefit and in the UK for less than a year	0.8
Claiming unemployment benefit and have never worked in the UK	0.2
Could claim unemployment benefit	6.0
Claiming child benefit and in the UK for less than a year	2.1
Claiming tax credits and in the UK for less than a year	1.0
Total observations	1889

The British position has long been that government expenditure must be reserved for immigrants who are in work, or have long-established ties to the member-state in which they live. Many British emigrants to Spain fail that test. Spain recently banned its hospitals from treating illegal immigrants except in emergencies. While it has not yet suggested that it might try to change the healthcare rights of EU migrants, if EU law on benefits is reopened, it would be justified in asking that the same principles be applied to public services.

To avoid the charge of hypocrisy, Britain could agree to pay Spain to cover healthcare costs, accept that migrants should pay for it themselves, or have Britons risk their health by travelling home to be treated by the NHS. Alternatively, Britain could recognise that it is one of the winners from free movement, and so protect migrants' rights. The risk that Cameron's renegotiation strategy has

always posed for Europe is that rights that have been tortuously negotiated, and are good for the EU as a whole, will unravel as each member-state tries to get rid of rules that it does not like.

There are several conclusions that can be drawn. EU immigration is a fiscal benefit. 'Benefit tourism' is, if it exists at all, a very small problem. Clamping down on benefits eligibility would do little to stop immigrants coming and would in any case require treaty change, preceded by a negotiation that might damage British emigrants' interests. Britain's politicians may be trying to manage a hostile public, who are fed a diet of misleading stories on immigration by a hostile press. But the potential gains from such a negotiation are small, and the risks to free movement rights are large. All of which should prompt Britain's leaders to ask: is it worth the trouble?

What would happen if Britain left the EU?

The second option available to Britain is to leave the EU, and in so doing take back the ability to restrict immigration from the rest of Europe. What would be the probable implications of a British exit for its labour market – and for Britons living elsewhere in the EU?

If, upon leaving the EU, the UK's immigration policies were set with the needs of its economy in mind, the British government would allow free immigration from the EU to continue. This would maintain the inflow of labour that employers demand, providing workers to fill newly created jobs and replace retirees. As low-skilled immigrants from the rest of the EU do not displace British workers, and higher-skilled workers probably make them richer and more productive, this would be rational. If Britain joined the EEA, it would have to sign up to free migration in order to have full access to the single market, as the group's other members currently do.

However, if Britain were to leave the single market altogether, the government might be tempted to redirect EU immigrants through Britain's current immigration system for non-EEA migrants. This system allows entry by awarding would-be immigrants 'points' for possessing certain qualifications, skills and capital.

There are five 'tiers' within the system, of which the first three are relevant to this analysis. Tier 1 allows very highly skilled people entry if certain conditions are met. Entrepreneurs must hold £200,000 in cash in a bank account. Investors must show they can invest £1 million or more in the UK. Other workers must be scientists or artists who have very good qualifications and show that their careers have been highly successful. Tier 1 immigrants do not need to have a job offer already: they can come to the UK and look for work. At the time of writing, this tier is closed to non-entrepreneurs, for

reasons that are hard to fathom: Britain will not let in those immigrants who are most likely to conduct scientific and technical research. If the UK were to leave the EU and reroute highly skilled Europeans through tier 1, unless it increased the quota proportionately it would have fewer entrepreneurs, scientists, engineers and managers: those that can currently migrate to the UK under the EU's free movement rules would then face a strict (and arbitrary) quota, and have to compete with applicants from the rest of the world. This would make Britain's economy less productive and innovative.

Tier 2 deals with skilled migrants – such as teachers and lawyers – whose job usually requires a university degree. Would-be immigrants must have an offer for a job earning more than £20,000, and the employer must have advertised the job to UK residents and found no one suitable. Migrants earn extra points if their job is on the list of occupations in short supply, drawn up by the government's Migration Advisory Committee. At present, only 20,000 visas may be given through tier 2 annually. There is no limit on the number of intra-company transfers conducted under tier 2, but transferees must earn more than £40,000. The total number of visas issued each year is around 30,000.²⁰ Yet 34,500 graduate immigrants from the rest of the EU come to Britain each year. (150,000 immigrants have come to the UK each year from the EU, on average, since 2004.²¹ Twenty-three per cent of these immigrants hold university degrees.²²) If Britain made EU immigrants go through the tier 2 route, and did not raise the quota, Britain would take in far fewer skilled immigrants than it currently receives.

The third tier governs low-skilled immigration. It is currently closed, as the government says that Britain's demand for low-skilled workers is currently sated by immigration from the A8. It could re-open it upon leaving the EU, but as one rationale for leaving would be to reduce the inflow of A8 workers, this is unlikely.

The most plausible outcome of an EU exit must therefore be that Britain would be much more closed to immigrants of all skill levels than it is now. This would not be an economic disaster. But it would make the country worse off.

Conclusion

Britain's political debate about EU migration has generated much heat but has been insufficiently evidence-based. Many Britons presume that EU migration is zero-sum: a job taken by an immigrant is one less for a British national. The idea that immigration might have benefits – that, for example, an immigrant might raise native workers' income – is rarely considered.

20: Christine Whitehead et al, 'The impact of migration on access to housing and the housing market', London School of Economics, 2011.

21: Office of National Statistics, Long-term International Migration Survey data.

It should also be remembered that over 1.4 million Britons live elsewhere in the EU.²³ Spain and Ireland house around 400,000 each (Spain's figure is far higher if Britons who live there part-time are included), and there are 150,000 and 175,000 in Germany and France respectively. Britain's EU membership is, of course, a major benefit to these migrants. But in the event that the UK decided to leave, some settlement would have to be negotiated with other EU member-states, to ensure that they could continue to live there. The outcome of such a negotiation may not be as straightforward as one might assume. Between a quarter and a third of British migrants to these countries are retirees, a far higher proportion than Britain receives from Europe.²⁴ Retired immigrants are on average a net drain on the public finances because of their heavy use of healthcare. In any bilateral negotiations between Britain and these four countries, the fact that free migration is more costly for France, Germany, Spain and Ireland than it is for Britain would not go unnoticed, and Britons abroad may find that access to healthcare becomes more expensive.

Britain could negotiate free movement with western European countries bilaterally, to allow existing migrants to stay and future migrants to move unhindered. This would probably be the simplest solution, if the UK were to insist on closing the door to the A8. But Britain cannot control the outcome of such negotiations, which may lead to migration opportunities for Britons being curtailed. Talks with Spain, for example, would be complicated by Gibraltar.

“Free movement of labour is mostly beneficial – and leaving the EU would cause more problems than it would solve.”

Leaving the EU would make it easier for future governments to restrict immigration. This may have some political benefits, but it would have harmful economic effects. Factor in the potentially adverse consequences for Britons living elsewhere in the EU, and it should be apparent that the free movement of labour is beneficial – and that leaving the EU would cause more problems than it would solve.

The evidence, however, is fairly clear. Economists have found little evidence that immigration from the A8 endangers Britons' employment prospects. Indirect evidence on the impact of highly skilled workers from western Europe is positive: they are likely to raise the productivity of the British workforce. Demand for immigrant labour is likely to be robust in the future.

22: Office of National Statistics, Labour Force Survey data.

23: World Bank, Global Bilateral Migration Database.

24: CER analysis of Department of Work and Pensions and World Bank data.

And both immigrant groups are net contributors to the public finances.

However, EU immigration will be a significant cause of rising housing costs in the future, unless the government manages to get more houses built. While EU immigrants are net contributors to the public finances, they also raise the demand for school places.

Nevertheless, the free movement of labour is not a reason for Britain to leave the EU: it is a reason to stay in. A renegotiation to make it more difficult for immigrants to receive benefits would be unlikely to encourage Britons to support free movement: it would, after all, not stop many people from coming, as they overwhelmingly migrate for work, not benefits. And if Britain left the EU,

it would almost certainly close its borders in a period when demographic and economic change makes access to European labour a significant benefit. Finally, it would endanger the residency rights of over 1 million Britons living on the continent and in Ireland.

Ultimately, Britain must decide whether the economic benefits of free EU migration are a reason to stay in Europe. The evidence shows that, on balance, they are.

John Springford
CER research fellow

October 2013

For more information on this topic, and others, visit our website:
www.cer.org.uk