Popular Economic Fallacies re: Immigration

by Ezra Mishan

The South-to-North movement of people that began after World War II may be attributed almost wholly to the "revolution" in communications and transport. Among the mass of poor people living in Asia, Africa, South America, and the Caribbean there dawned a growing awareness of the high material standards enjoyed by workers in the countries of the West at the same time as travel to such countries became cheaper and faster.

It us hardly surprising that the hundreds of thousands of colored immigrants that began to pour into Britain in the late 1950s should have sparked a debate about the advantages or otherwise sustained by the host country. More recently thew debate has become more heated, fueled as it is by popular economic fallacies.

Since a basic underlying fallacy can be made more easily apparent by painting with a very broad brush, we may imagine the world to be divided into just two areas: a prosperous Northland and a relatively impoverished Southland.that has about ten times the population of Northland. Although there is free movement of goods between the two areas, we suppose that, initially, there is no movement between them of labor or capital.

Operating with this simple model in which labor and capital are held to be homogeneous, we need attend only one general economic principle: the more capital per unit of labor, the greater the productivity of labor. Northland's prosperity is therefore to be explained simply by the far higher ratio of capital to labor. If all legal impediments to the movement of labor were now to be removed, labor from Southland would begin to move to Northland; and the lower the costs of movement[1] the larger the number of Southlanders wanting to move there. But the greater the augmentation of Southland labor to the indigenous labor supply in Northland, the lower becomes the equilibrium wage in Northland. In the extreme case of zero costs of movement, the South-to-North movement continues until the wage rates in the two areas are about equal. However, since the initial population of Southland is ten times that of Northland, the wage rate in Northland will have sunk far more than it has risen in Southland.

From the simplified model we may conclude only one thing: that large-scale immigration into Britain — measured in hundreds of thousands, or millions — acts to reduce the real wage in this country, or at least acts to curtail its rate of growth.

Although allegations during the 1950s and 1960s that Britain suffered from a general shortage of labor favored a policy of large-scale immigration, such a policy had to be discarded in 1962 — which is just as well since such an allegation is certainly an economic fallacy. The belief that there must be a general shortage of labor stems from the perception of a general shortage of goods. But to an economist a general shortage of goods means only one thing: that the aggregate value of goods demanded (at prevailing prices) exceeds the value of goods that can be produced with existing resources.

Whatever the cause of general shortage of goods, the situation is one described by economists as "too much money chasing too few goods." Thus it is an economic symptom of potential or actual inflation; one that can take place in any country irrespective of its supply of labor. It can take, and has taken, effect in countries such as India and China that have ample supplies of labor. And the traditional, indeed the only means of checking such

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inflation, is through a curbing of the money supply, raising interest rates, and increasing taxes.

If, however, the response to incipient inflation is that of importing labor, it can only aggravate the inflation since the immigrant-caused increase in aggregate expenditure will far exceed the immigrants' production of additional goods. For even if the newcomers did not spend a penny of their earnings, living entirely on manna sent from heaven, their employment in the host country would initially require an expansion of expenditure on industrial capital that is several times the value of their annual incomes, and therefore of their annual production of goods. Moreover, allowing that immigrants do indeed spend a large proportion of their incomes, one has to reckon also with additional capital expenditures on housing and other items of social infrastructure — all of which necessarily add fuel to the inflation.

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Turning to particular shortages of labor, official encouragement was given in the 1950s and 1960s to the recruitment of overseas labor in order to meet apparent shortages in nursing and rail transport. Such a policy overlooks the fact that in any economy, inconsequence of continual changes in the overall pattern of demand, there will be from time to time excess outputs of some goods or services and shortages of others; therefore an excess of labor in others. Without recourse to continual importing and exporting of labor, a market economy is able to cope with these unavoidable vicissitudes in demand simply through changes in the price of the relevant goods and services.

Thus, in the complete absence of imported labor, additional personnel would have been attracted into the nursing profession by the offer of better salaries and working conditions — possibly also by the installation of more sophisticated medical equipment. Similar remarks, of course, apply also to meeting the apparent shortage of railway workers.

It may be concluded that importing foreign labor to meet a perceived labor shortage — obviously the preferred solution of businessmen — acts to prevent the rise in pay necessary to eliminate the initial shortage of domestic labor. It should also be apparent, however, that such a rise in the pay of, say, nursing and transport personnel does not alter the aggregate real income of the economy since it involves no more than a transfer payment from one group to another: in effect a redistribution of real income in favor of workers in nursing and transport.

The occasional shortage of special skills — those of doctors, physicists, electronic engineers and so on — can also be similarly resolved with the resources available to the domestic economy. When foreign personnel are not recruited, a movement of skilled personnel into these occupations has to be attracted there by higher salaries and better conditions. To be sure, time is always involved in augmenting the number of trainees in universities and technical colleges, but the delays are hardly such as to impose genuine hardship on a mature economy.

Indeed, importing such skilled labor must produce untoward economic effects. The policy of recruiting foreign skills to meet shortages as and when they occur must inevitably shunt the British economy into the uncomfortable position of becoming, over time, dependent upon a continued flow of specialists from abroad.

Having shed some light on these old but recurring economic fallacies, let us now turn briefly to some of the more recent ones.

First, the popular belief that Britain needs "fresh blood" from abroad in order to support its "ageing population" is a fallacy for the obvious reason that the support of payments to pensioners by the working population is certainly not an indication of the operation of any economy. The seeming burden of pensions is a consequence wholly of the country's institutional arrangements — which realization should afford some relief. For if the aged in Britain really depended for their support on immigrants who will themselves eventually become aged, and need the support of yet more "fresh blood," the country would have to continue bringing in immigrants in ever larger numbers forever.

Of incidental interest are the remedies proposed by those who have accepted this misconception. They include a greater tax allowance for children in the hope of rejuvenating the demographic structure of Britain and — more immediate in its impact — the raising of the age of compulsory retirement to 70 or 75. Both proposals may be regarded as good in themselves by conservatives, though we cannot leave the matter there.

The crux of the fallacy derives, as indicated above, from the confusion of economic institutions with economics proper: of an acceptance, as a fact of economic life, of an arrangement whereby pensioners are paid from the current contributions of employer and employees.[2] In the complete absence of any state intervention, people would be obliged to save or invest for their old age or else to insure in companies that undertake to invest their funds so as to ensure a safe and steady return. And although the state may continue to require employer-employee contributions toward a pension fund, so long as the sums collected are invested by the state with accredited insurance agencies, the effect is the same: pensions received on retirement become wholly independent of the earnings of the workforce. No "new blood" may apply.

Secondly, there is the occasional reminder the British families, at least white families, are not quite reproducing themselves and, therefore, in the absence of immigrants our population may decline. But then a smaller population of this island would enjoy economic and environmental advantages: more space, less traffic congestion and less pollution generally. An easing of land requirements, and therefore a fall in its price, would be reflected in lower agricultural costs and lower house prices. With a population of, say, some 30 million, the country would be virtually self-sufficient in food. And with the decline in our imports, relative to our exports, the terms of trade would move in our favor, so contributing further to higher living standards.

Thirdly, we need only glance briefly at those occasional triumphal assertions of immigrant-conferred benefits that, like a desert mirage, shimmer on the horizon but dissolve after a minute's contemplation. One example surfaced recently in a recent radio debate during which it was solemnly averred that the economic contribution to Britain's GDP of the Asian community was more than £9 billion. But whatever the figure for the aggregate earnings of any ethnic group, it does not differ much from its aggregate expenditure. Whatever value it adds to GDP is therefore a measure of its own economic benefit, not that conferred on the rest of the community. Were it otherwise, Britain would accumulate unlimited economic benefits simply by unlimited immigration. For every additional ten million Chinese workers (less than 1 percent of the Chinese population), we should anticipate an increment of GDP equal to about 300 billion.[3]

Related to the above bogus benefits of immigration is the proud catalogue of outstanding achievements in business, science, music, letters and the arts flaunted by one or another ethnic group. But while such ethnic pride is very human and understandable, the fact is that such successful careers are of no great economic consequence. A random sample of, say, half a million British families — or, given time enough to settle in, half a million of any reasonably industrious and assimilable ethnic group — is pretty sure to contain comparable proportions of distinguished individuals.

From this unremarkable observation no benefits from increased immigration can be salvaged, at least, not in a world where the ranking of countries by population has no affinity whatever with their ranking by economic development or economic innovation.

Another fallacy is that hard-working immigrants confer a benefit on this country inasmuch as they "pay more in taxes than they consume in public services." For the proportion of immigrant workers (especially if they are young and unmarried) who are legally and continuously employed, it is probably true that most of them are likely to pay more in taxes than the value of the public services they receive — at least during their working lives here. But this is equally true of British workers: during their working lives they are also apt to be paying more in taxes than they receive in public services.

The children of such immigrant workers however are in much the same position as the children of British workers. According to the number of years in active employment, the number of their children, their average tax bracket, etc., they will be either a net recipient of, or a net contributor to, the value of the public services provided by the country over their lifetimes.

In short, one may conclude only that — provided one ignores all other relevant economic considerations — there might well be some economic benefit in the form of a tax gain from employing those hard-working immigrants who agree both to remain childless while in Britain and to be repatriated at the end of their working lives.

In addition to economic fallacies and misconceptions, there will always be a number of blatant assertions with which one cannot take issue since they are not really economic propositions: just spin and froth. We have therefore to resign ourselves to much windy rhetoric that will continue to circulate in the media. Fatuous claims today about the immeasurable benefits to be reaped by the "entrepreneurial skills" of immigrants are, incidentally, reminiscent of the equally fatuous claims of the 1960s about the incalculable benefits to Britain that would accrue from association with the "economic dynamism" of the Six, once in the EEC.

Finally, support for the admission of genuine asylum seekers on grounds of compassion or tradition fails to reckon with the scores of millions of families in South America, Africa and in Asia, to say nothing of those in eastern Europe or the Middle East, who can legitimately claim to live in fear of arrest intimidation, torture or death, or more generally, are harassed or persecuted either by state police or by some vindictive ethnic group.

Honesty requires us to acknowledge the unenviable plight of scores of millions of people so victimized in their homelands; for that matter, to acknowledge also the many hundreds of millions whose living standards in comparison with ours are pitiful. Were I born one of these unfortunates, I would certainly make strenuous efforts to escape to the more prosperous and secure countries of the West.

Yet we have to accept the regrettable fact that we are all born into an inherently unfair universe. Conservatives at least are aware that resolute endeavors to eradicate social injustice in a world where so much of it exists, and in so many forms, prove eventually to be not only ineffectual: such endeavors will almost certainly wreck or erode those social habits, conventions, traditions and institutions that contribute to the maintenance of fragile forms of democratic civilization in some parts of the world.

The prevention of a rising tide of illegal immigrants from gradually swamping the precarious civilizations of the West will soon become the most urgent of political priorities. With the gathering momentum of the South to North movement ¯ further energized by increasingly profitable and powerful criminal organizations ¯ the British people can no longer afford to think of immigration in terms of bygone traditions. We should be thinking more realistically of our prospects for survival as a nation in an already tight little island set in a world of expanding population and mobility, and if not as a nation, at least as a haven of relative civility and security in a "global village" become increasingly grasping, frenzied and savage. •

NOTES

1. The costs of movement comprehends not only travel costs but also any distress or unease at parting, and the difficulties attendant upon resettlement in the host country, less the welfare provisions available here.

2. The contribution of the employers, however, does not come out of their incomes. Such contributions to the pension funds are regarded by management as an overhead and, over a long period, enter into the prices of the goods being produced. In effect they are being financed by the consumer.

3. Since any immigrant who finds work here may be euphemistically described as a "wealth creator," the Home Office Minister, Barbara Roche, who declared that Britain needs to attract more "wealth creators" to compensate for its ageing population, skillfully merged two fallacies into a single sentence.