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FREE TO MOVE

The costs and consequences of
restrictions on migration

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Summary

- Immigration is perhaps the most controversial political issue in Britain today. It is a key reason why 52 per cent of Britons voted to leave the European Union in June 2016.
- Yet negative misperceptions about migration abound. People greatly overestimate the immigrant share of the population and many wrongly believe that openness to migration harms Britons' job prospects, burdens public finances and services, and makes housing prohibitively expensive.
- Openness to migration actually brings big economic benefits. These stem primarily from the very thing that makes immigration so controversial: the fact that migrants are different – with diverse attributes, skills, perspectives and experiences that tend to complement ever-changing local resources, needs and circumstances.
- Migration is, in effect, a form of international trade which similarly raises productivity and living standards. Indeed, static analysis understates its dynamic boost to productivity growth. By raising the diversity of skills and ideas at the economy's disposal and spurring entrepreneurial activity, it enhances economic dynamism.
- The UK government ignores this evidence and seeks to restrict net migration to 'tens of thousands' of people a year. Citizens from outside the European Economic Area (EEA) must meet elaborate conditions to obtain a work, student, family, refugee or other visa from the government. The work visa tiers in particular are arbitrary and absurd, with government officials second-guessing the needs of the economy and migrants' future economic contribution.

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- Just as free trade is economically optimal, economic theory and evidence suggest that the first-best economic policy for migration is freedom of movement. This currently works successfully for EEA citizens and could be expanded, with limited exceptions such as known terrorists, agents of hostile foreign governments and those carrying highly infectious dangerous diseases. Free movement to work does not imply immediate citizenship or voting rights.
 - Sweden's labour migration policy is a good second-best compromise. Companies based there are able to hire people of all skill levels from anywhere in the world on two-year renewable visas, with no limit on entry numbers. It is an open, flexible and non-discriminatory system, which reassures voters that migrants are coming only to work.
 - At the very least, the target to lower net migration should be scrapped, as should the quotas on Tier 1 and Tier 2 visas, in favour of a skills-neutral work-permit system.
 - Trade theory is instructive on how to build a more liberal migration system pragmatically. While removing all migration restrictions unilaterally is optimal, agreeing bilateral two-way free-movement deals with other countries could help assuage domestic protectionist instincts and raise the political cost of erecting future trade barriers.
 - If Britain leaves the EEA, it should maintain bilateral free movement with the block. Britain could also aim to conclude free-movement deals with countries such as Australia and New Zealand (where political opposition is likely to be smallest) and seek to extend such reciprocal agreements more widely.
 - The visa process for citizens of other countries should also be reformed. Work visas should be granted automatically to those with a job offer and student visas granted to anyone registering for a UK education course. Foreign students should be free to remain following their studies. Asylum seekers could be allowed to work while their asylum claims are processed, minimising their initial fiscal cost and fast-tracking their entry into the labour market and society.
 - Associated reforms to help defuse the political backlash to migration could include moves towards a more contributory welfare system (or at least denying migrants access to welfare benefits initially), enhancing the efficiency and flexibility of public-service delivery, and reforming land-use planning to make the housing market and infrastructure development more responsive to demand.

Introduction

Immigration is perhaps the most controversial political issue in Britain today. It is a lightning rod for broader concerns about globalisation and the pace of economic and cultural change. It is a key reason why 52 per cent of Britons voted to leave the European Union (EU) in June 2016.¹ And it divides people who otherwise have a liberal outlook.

Immigrants stand accused of all manner of ills: taking 'British jobs', depressing local wages, sponging off welfare, putting pressure on public services, pushing up house prices, jumping the queue for social housing, adding to congestion on the roads, the trains and the Tube, committing crime, threatening Britain's national identity and jeopardising its security.

Of course, some immigrants do bad things (as do some Britons). But for the most part these charges are unsubstantiated. Indeed, both economic theory and the overwhelming weight of rigorous empirical evidence suggest that, overall, immigration has actually been a boon for Britain.

The economic benefits of migration stem primarily from the very thing that makes it so controversial: the fact that migrants are different – with their diverse attributes, skills, perspectives and experiences tending to complement ever-changing local resources, needs and circumstances. Immigrants do jobs that most Britons spurn, for example – such as pick strawberries, prepare food, clean offices and care for the elderly – freeing locals to do better-paid, higher-skilled jobs that they prefer. They bring skills that Britain lacks – as doctors, teachers, computer programmers

¹ For example, according to polling following the EU referendum, one-third of Leave voters stated that the primary reason for their vote was because Brexit 'offered the best chance for the UK to regain control over immigration and its own borders'. See: <http://lordashcroftpolls.com/2016/06/how-the-united-kingdom-voted-and-why/>

and engineers, for instance – which enhances the productivity and wages of their British colleagues. Their diverse perspectives and experiences can help spark new ideas and technologies that boost productivity and improve our lives. As dynamic outsiders, many start businesses that create wealth and employ Britons. Their foreign contacts and know-how can open up new trade and investment opportunities. Their willingness to move helps the economy adapt more readily to change. They pay taxes that fund public services and welfare benefits for British people whilst helping to service the massive public debt. Their youth is a huge bonus to an ageing society with a shrinking native workforce, because young migrant workers complement older, more experienced local ones, help pay for the growing ranks of pensioners and support population numbers, thus spurring investment and growth. Allowing people to move is also the best form of development aid: it transforms the life chances of migrants and their children, while the money they send home tends to be spent more effectively than official aid.

Immigrants enrich our lives culturally as well as economically. They broaden our horizons, create new friendships and relationships, provide a wider choice of ethnic restaurants and stimulate new art, literature and music. While some people dislike increased diversity, they also tend to cheer black football players in an England shirt, enjoy a curry or a Chinese takeaway and listen to jazz or R&B music. Even Nigel Farage has a German wife.

This paper does three things. It starts by examining the problems with the current situation in Britain. It argues that most of the problems blamed on immigration are perceived, not real; that migration is actually beneficial for Britain; and that the UK's immigration controls are illiberal and costly. It then considers solutions and argues that broad freedom of movement is the best policy from a liberal perspective, while also setting out alternatives if this is not politically possible. Finally, it suggests pathways to achieving (greater) freedom of movement, notably broadening current provisions for two-way free movement with EU countries to other potential partners, as well as policies that could enhance the economic benefits of migration and help defuse political opposition to it.

Problems

Negative perceptions, positive reality

Britain's biggest problem with immigration is the chasm between the generally positive reality of immigration and often-negative public perceptions. This perception gap has many causes, including ignorance, misinformation, misperception, localised anecdote – and prejudice. Regrettably, many politicians, anti-immigrant campaigners and media propagandists have exacerbated this perception problem through their fear-mongering, xenophobic rhetoric and outright lies – notably during and since the EU referendum campaign. Successive governments have also found it convenient to blame migrants for their own failings.

It is telling that while few people think immigration is negative for them personally, many believe it is detrimental to the country as a whole.² Indeed, attitudes towards migration are often much more positive in areas where there are lots of migrants, notably London, than in areas where there aren't, such as Clacton, a deprived constituency represented by the UK Independence Party's sole MP.

Public ignorance about immigration is huge. Many critics argue – sometimes disingenuously – that they have no problem with immigration *per se* but rather with the scale of it ('the numbers'). Yet people tend to greatly overestimate the immigrant share of the population – and opponents of immigration especially so. One poll in 2015 found that people thought 25 per cent of the population were immigrants – nearly twice the actual figure of 13 per cent (Ipsos Mori 2015). Muslim migrants are perhaps the most

2 For instance, an Ipsos Mori poll in June 2016 found that while 42 per cent of respondents thought that EU migration had been bad for Britain on the whole, only 19 per cent said it had been bad for them personally (Ipsos Mori 2016).

controversial and the same poll found that respondents vastly overestimated the Muslim population: they thought 21 per cent of UK residents were Muslim, when in fact only 5 per cent are. Another poll in May 2016 found that people thought EU migrants made up 15 per cent of the UK population (which would be around 10.5 million people) when in reality they account for 5 per cent or around 3.5 million people (Ipsos Mori 2016). Those intending to vote Leave in the EU referendum reckoned 20 per cent of the population were EU migrants, compared with 10 per cent among those intending to vote Remain. On average, respondents thought EU migrants accounted for a quarter of the total migrant population. This would suggest – assuming they had done the arithmetic – that they thought 60 per cent of the UK population were immigrants!

This ignorance is reinforced by politicians and pundits who routinely assert that Britain is experiencing ‘mass immigration’. It is true that the foreign-born share of the population has nearly doubled over the past two decades, from 7 per cent in 1993 to 13 per cent in 2014. As recently as 1993, net migration – arrivals minus departures – was negative; in 2015, it was 333,000 (ONS 2015a). But relative to the UK population of around 65 million, the net migration rate was 0.51 per cent. This is much lower than the 0.75 per cent rate in Australia, which Britons tend to think tightly limits immigration.³ Is the arrival in Britain of one additional migrant a year per 195 people ‘mass immigration’? It is equivalent to 255 extra newcomers in a Premiership football crowd of 50,000 people. We are hardly being ‘swamped’.

As well as ignorance and misinformation, there are misperceptions. Some may be genuine mistakes. Real wages have plunged since the financial crisis and it may seem logical that an increase in the labour supply is to blame, especially since immigrants tend to be more visible than the true causes of declining pay.⁴ The lump-of-labour fallacy that there is a fixed number of jobs to go around – so that each job taken by a migrant entails one less for a British person – also seems like common sense to many people.

3 Net overseas migration to Australia in 2015 was 177,100 (provisional figure). This was 0.75 per cent of Australia’s population of 23.5 million. See: http://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/Quick_Guides/MigrationStatistics#_Table_3:_Net

4 Real average weekly earnings (regular pay, seasonally adjusted) fell by 8.3 per cent between April 2008 and April 2014 and were still 4.1 per cent lower in June 2016 (ONS 2016a).

Where misperceptions are due to failures of government policy, ministers and officials have no incentive to correct them. If people don't know – or don't believe – that migrants pay more in taxes than they take out in benefits and services, they may blame immigrants for putting a strain on local services. Yet the real problem is the failure of public services to allocate resources efficiently and respond quickly to changing needs. Nobody blames migrants for shortages at the local Tesco – because there aren't any.

Often, complaints against immigrants are symptoms of broader concerns. People who feel threatened by change over which they feel they have no control may lash out at one of its most visible (and vulnerable) manifestations: immigrants. Many white working-class men feel they have lost status with the decline of manufacturing jobs, the entry of women into the labour market and moves to reduce discrimination against women, ethnic minorities and other groups. Elderly people who are nostalgic for an idealised past – not least because they were still young back then – may express their social conservatism through opposition to immigration. Strikingly, the Leave vote was strongly correlated not just with opposition to immigration, but with dislike of social liberalism and support for the death penalty.⁵ In such cases, voters' real objection may not be to immigrants in particular, but rather to modern liberal Britain in general. Since stopping immigration would not turn the clock back to the bygone age that such voters romanticise, it would scarcely address their discontent.

In many cases, negative perceptions of immigration are due to prejudice. People with an emotional dislike of foreigners tend to come up with pseudo-rational arguments to justify their xenophobia. Thus when immigrants are working, they are taking our jobs; when they are unemployed, they are scrounging off the state. When they are rich, they are driving house prices up; when they are poor, they are driving standards down. Immigrants cannot win: they are damned if they do and damned if they don't. While rational, fact-based arguments such as those in this paper can help counter ignorance and misinformation and address genuine misperceptions, they can do little to tackle such emotional biases.

5 According to Lord Ashcroft's polls, 80 per cent of those who thought immigration was a force for ill voted Leave, as did 80 per cent of who thought social liberalism was a force for ill. See: <http://lordashcrofthpolls.com/wp-content/uploads/2016/06/III-vs-Good.jpg>. See also Kaufmann (2016).

Critics' three main economic charges against immigrants are that they harm Britons' job prospects, burden public finances and services and cause congestion on a crowded island. In addition, they claim that migrants raise crime and undermine British identity and society.

Do immigrants harm Britons' job prospects?

Start with the labour market. If it were true that an increase in the labour supply tended to raise unemployment, the entry of women into the labour market ought to have caused mass joblessness among men. Likewise, if a rising labour supply tended to depress wages, the entry into the workforce of the post-war baby-boom generation ought to have crushed wages. Yet neither of those harmful things happened. Why, then, do critics routinely assume that an increase in the labour supply through migration will raise unemployment and/or depress wages?

To put it simply, there isn't a fixed number of jobs in the economy. People don't just take jobs, they also create them. When they spend their wages, they create jobs for the people who produce the goods and services consumed. And they also create jobs in complementary lines of work: more builders entail more demand for architects and accountants, as well as for building supervisors and people selling building supplies.

How, then, might newcomers harm existing workers' prospects? Economic theory tells us that their impact depends on whether newcomers' skills and attributes complement those of existing workers and whether and how the labour market and the economy adjust to change. Insofar as critics reason at all, they implicitly assume that newcomers compete directly with existing workers and that the economy never adapts to their arrival.

Imagine a town with a single factory that employs generic workers and is operating at full capacity. New generic workers arrive. Since they compete directly with existing workers, wages will tend to be driven down. Assume that the factory does not expand and presto, a rise in the labour supply harms workers. This simplistic example may sound ridiculous, yet it is akin to economic models that assume that migrants and locals are perfect substitutes, hold the capital stock fixed in an ill-defined 'short run' and thereby conclude that migrants drive down wages.

If newcomers were perfect substitutes for existing workers and there were no vacancies in the economy, they would indeed have a negative impact on existing workers – temporarily. In a flexible labour market, wages would fall; in an inflexible one, where wages and/or employment cannot readily adjust, unemployment would rise. But once investment caught up with the increased supply of workers and their higher demand for goods and services, the demand for labour would rise, and with it wages and employment.

Yet it is unlikely that British workers are harmed even temporarily because migrants are not perfect substitutes for them; it is precisely because immigrants are different that critics find them so objectionable. The newcomers, after all, are foreign: they speak English less well, have less knowledge of local norms and working practices, have fewer job contacts, may have different attributes (such as a willingness to work longer, more unsociable hours) and their foreign qualifications may be less valued by employers. Thus even migrants with similar education, skills and experience to local workers are at most imperfect substitutes for them and compete only indirectly with them in the labour market.⁶

It is possible that some local workers may lose out from migration. For instance, an unreliable builder who does shoddy work may find himself out of work and need up to his game or retrain. But even if Polish builders are willing to work for lower wages than local ones, they don't necessarily deprive British brickies of work. If home repairs are cheaper, more people can afford house improvements, while reliable, established builders may be able to charge richer clients more (and employ Polish workers).

Often, immigrants take jobs that local workers can't or won't do, and thus do not compete with them at all. Even young Britons with few skills don't want to pick fruit or vegetables, while university students who might once have helped pick the harvest during their summer holidays now seek career-enhancing internships instead. Likewise, few young Britons want to provide care for the elderly. And not enough Britons train as doctors or nurses to fill all the demand for these skilled jobs in hospitals.

Far from competing with local workers, immigrants typically complement their efforts, raising their productivity and thus lifting their wages. Polish builders may use different techniques from which their British colleagues

6 For a more detailed discussion of these issues, see Ottaviano and Peri (2008).

may learn (and vice versa). They may also work harder and spur their local colleagues to do so too. And a foreign child-minder may allow a British doctor to return to work, where her productivity is enhanced by hard-working foreign nurses and cleaners.

Not only do migrants tend to complement, not compete with, British workers, the economy tends to adjust rapidly to their arrival. Britain has a flexible and mobile labour market where people are continually arriving, leaving and changing jobs and a dynamic economy where businesses are continually investing and adapting their operations to changing circumstances. Prior to 2008, for example, each year (on average) 4 million jobs were created and 3.7 million per year destroyed, with average annual net job creation of 300,000 (Shaw and Butcher 2013). Only in a severe slump where the financial system is disrupted and uncertainty about future demand is large, such as in 2008–10, might this adjustment be impaired.

Longer term, the economy may adapt in other ways. The pattern of migration is likely to change the mix of goods and services that the economy produces and the technologies it employs.⁷ For instance, an influx of low-skilled labour will tend to cause sectors that intensively employ low-skilled labour to expand. An influx of high-skilled labour will tend to spur companies to invest in technologies that complement skilled labour, such as digitalisation. In essence, labour mobility, like other forms of international trade, leads the economy to specialise in what it does best, boosting productivity and wages.

Empirical evidence confirms what economic theory predicts. Studies typically find that immigration has a small positive effect on average wages. One study, using data from 1997–2005, found that an increase in the number of migrants equivalent to 1 per cent of the UK-born working-age population boosted average wages by 0.2–0.3 per cent (Dustmann, Frattini and Preston 2013). Increased migration boosted the median wage by 0.7 per cent, while reducing the wages of the lowest-paid 5 per cent of workers by 0.6 per cent. In practice, this meant hourly wages for the lowest-paid 10 per cent rose by 18 pence per year instead of 18.7 pence.

Looking more specifically at EU migration, a recent study by the London School of Economics' Centre for Economic Performance (CEP) found no statistically significant relationship between changes in the share of EU

7 For a further discussion, see Dustmann et al. (2008).

migrants in the local population between 2008 and 2015 and the wages of people born in the UK (Wadsworth et al. 2016). A recent Resolution Foundation study found that net EU migration between 2000 and 2015 had a tiny impact on local workers' pay. At most, EU migration depressed natives' hourly wages by four pence a year in skilled trades (Clarke 2016). What about employment? Migration has risen substantially in recent years as the economy has recovered from the financial crisis. At the same time, the overall employment rate, and that of the UK-born, has reached record highs. So it is hard to argue that migrants are displacing British workers from jobs.⁸

Research confirms this. One study using national-insurance-number data from local authorities in England from 2002 to 2011 found that immigration had no impact on the local claimant-count unemployment rate, even in a recession (Lucchino et al. 2012). Using data from the Labour Force Survey for 1975–2010, the government's Migration Advisory Committee (MAC) found that, overall, migrants had no impact on native employment (MAC 2012).

While the MAC study did find a tentative negative association between migrant share and native employment rates in economic downturns, and for non-EU migrants between 1995 and 2010, a subsequent study by the Home Office and the Department for Business Innovation and Skills using the same methodology and dataset, with data up to 2012, found that non-EU migrants did not depress native employment if the data from the severe slump in 2009 and 2010 were excluded (Devlin et al. 2014).

LSE's CEP looked at the impact of EU migration on local employment rates and the job prospects of low-skilled people not in education, employment and training (NEETs) over a variety of periods and again found no impact (Wadsworth et al. 2016).

In short, except perhaps in severe slumps, there is no evidence that migrants deprive British workers of jobs, while they tend to have a positive impact on most Britons' wages. Any negative impact on the wages of low-skilled workers is negligible. So Prime Minister Theresa May was wrong to claim in her speech to the Conservative Party conference in October 2016 that Britons are 'out of work or on lower wages because of

8 Ibid. (Figure 4). Data from Resolution Foundation analysis of Labour Force Survey, 1994–2016.

low-skilled immigration'.⁹ Moreover, all these labour-market studies ignore the broader economic gains from migration, which in turn tend to raise wages, as will be discussed later.

Are immigrants a welfare burden?

The second economic problem attributed to migrants is that they are supposedly a burden on the state because they claim welfare and put pressure on public services. In principle, this could be true; in practice, it tends not to be.

One fear is that Britain's welfare system acts as a magnet for migrants, not least people from poorer EU countries who can move here freely. As Milton Friedman once said, 'it's just obvious that you can't have free immigration and a welfare state'.¹⁰ Yet he was mistaken, as Britain's experience with free movement in the EU shows and as I explained at length in my pamphlet 'Is Free Migration Compatible with a European-Style Welfare State?' (Legrain 2008).

It may seem obvious that if welfare benefits in a rich country are higher than incomes in a poor one, migrants from the poor country will move to the rich one to claim welfare. Once EU citizens who are free to move to the UK have been here for three months and are deemed 'habitually resident', they are entitled to some welfare benefits, albeit only for three months. But what this simplistic analysis omits is that the self-selected minority of foreigners who are enterprising enough to incur the costs and risks of moving to another country would be even better off working once they arrive. And thanks to Britain's admirably flexible labour market, they do not get trapped in unemployment as they might do in countries with labour markets that privilege insiders at the expense of outsiders. Contrary to public perception and Friedman's assertion, there is no evidence that Britain's welfare state acts as a magnet for 'benefit tourists'.

Indeed, not even Sweden's much more generous welfare system does, as a recent natural experiment shows. In 2004, only three EU countries opened their labour market to citizens of the eight poor, ex-communist accession (A8) countries that had just joined the EU, the biggest of which

9 Theresa May, keynote speech to the Conservative Party conference, 5 October 2016.

10 Quoted in *Forbes*, 'Milton Friedman at 85', 29 December 1997.

was Poland. Britain and Ireland restricted Polish migrants' access to social benefits for the first year, while Sweden, which has one of the most generous welfare systems in the world, did not. Yet of the 324,000 Poles who emigrated in 2005, only one in 100 went to Sweden – overwhelmingly to work (OECD 2007).¹¹

Far from being attracted by Britain's welfare system, migrants tend to pay more in taxes than they take out in benefits and services. Estimating the net impact on public finances of any person – let alone migrants as a whole – is fraught with difficulties. It depends on their characteristics – such as their age, education, employment status, income and number of children – and the tax and welfare system, such as tax rates and migrants' access to welfare benefits and public services. Nor is it a simple matter of totting up how much someone pays in taxes in a year and subtracting what they receive in direct benefits. The calculation depends heavily on which methodology is used, which time-frame is considered, which expenditures and revenues are included, how they are allocated, and whether individuals or households are considered.

Over a lifetime, people are generally a net burden on the state while they are in state-financed education; net contributors while they are working; and a burden again when they are retired or require very expensive medical services. Immigrants who arrive as young adults, having completed their education abroad and with a full working life ahead of them, are likely to be net contributors over their lifetime if they remain in work – even more so if they leave before claiming a pension.

Families with young children receive more benefits than single people: free public education, as well as child benefit. But this apparent subsidy to children is partly an artefact of a short time-horizon and taking a household rather than an individual approach. If one considers children separately from their parents, couples with children do not receive bigger benefits than single people: everyone is subsidised as a child and most pay this back in taxes once they start working.

Any snapshot – however it is calculated – of the taxes immigrants pay and the benefits they receive in any year is clearly less representative than a lifetime assessment, but this requires uncertain projections of their tax and benefit profile over future decades. The most comprehensive

11 Table I.2 and Chart I.7.

measure involves an intergenerational approach – estimating the net contribution that immigrants and all their descendants make – but this involves even greater assumptions.

Many studies have estimated the net fiscal impact of immigration. The Organisation for Economic Co-operation and Development (OECD) calculated that the fiscal impact of migration in Britain in 2007–9 was positive, to the tune of 0.46 per cent of GDP (OECD 2013). Educated abroad, migrants are typically young and healthy and are also more likely to be employed than locals, while those who leave again typically don't claim a pension.

Dustmann and Frattini (2014) found that migrants who have arrived since 2000 are net contributors to public finances – those from the European Economic Area (the EU plus Norway, Iceland and Liechtenstein, which are also part of the free-movement area) especially so. Between 2001 and 2011, recent migrants from the ten EU accession (A10) countries – the eight ex-communist countries that joined in 2004 plus Bulgaria and Romania, which joined in 2007 – made an estimated positive fiscal contribution of £4.9 billion, those from other EEA countries £15.3 billion and those from outside the EEA £5.2 billion. Overall, then, migrants made a positive contribution of £25.4 billion. That is remarkable, considering the government ran large budget deficits in many of those years. Over the same period, UK-born residents' net fiscal cost amounted to almost £617 billion.

Dustmann and Frattini (2014) also found that immigrants who resided in the UK in any of those years were generally less likely than natives to receive state benefits or tax credits and also less likely to live in social housing than natives in the same region. Migrants' net contribution to public finances was even greater allowing for the fact that they helped spread the cost of fixed public expenditures over a wider tax base, reducing the financial burden on UK-born people by a further £24 billion between 2001 and 2011.

Such figures also underestimate the fiscal contribution of lower-skilled migrants. To the extent that migrants fill jobs that locals would otherwise do, enabling Britons to do better-paid, higher-skilled jobs, they in turn boost the fiscal contribution of those locals.

The time-frame is particularly important in determining the impact of immigration on countries with large public debts and huge unfunded

pension promises. The UK government has run up large debts to pay for current spending and has even greater unfunded future commitments, notably to pay pensions to the existing population. Newcomers can help service and repay debts run up by the existing population. For example, net public debt in Britain is around £20,000 per person. The Office for National Statistics projects that the UK population will rise by some 10 per cent to 70 million in 2027 (ONS 2015b). If so, that will reduce the debt burden by roughly £2,000 per person.

The independent Office for Budget Responsibility (OBR) has estimated the long-term fiscal impact of anticipated future migration flows, including the impact of the entry into the labour market of the children of existing migrants (OBR 2013). It found that if net migration turned out to be 'high' (260,000 people a year) net public debt would be 73 per cent of GDP in 2062/63 – half what it would be with zero net migration. This is primarily because migrants are more likely to be of working age than the population in general.

Lisenkova, Mérette and Sánchez Martínez (2014) estimated the fiscal impact of roughly halving net migration to the government's target of 'tens of thousands a year' (net migration at that time was lower than it is now). They found that by 2060 GDP would be 11 per cent lower and GDP per person 2.7 per cent lower, while the effective labour income-tax rate would need to be increased by 2.2 percentage points to keep the government budget balanced. To reduce migration to 'tens of thousands a year' would now require slashing net migration by more than two-thirds, which would have an even more harmful impact relative to this baseline.

In short, migrants tend to be net contributors to public finances and can provide a particularly big fiscal boost by spreading the public debt burden over a wider tax base. More restrictive migration policies would entail higher taxes and/or worse public services for British people, as well as higher public debt. Moreover, all these studies underestimate migrants' positive impact on public finances, since they ignore their broader contribution to economic growth, which in turn boosts tax revenues and makes the welfare state more affordable.

Do migrants put pressure on public services?

Since migrants more than pay their way, any pressures on local public services in areas where there is an influx of immigrants are due to the failings of those services. After all, if a British person moved from Liverpool to London and local services couldn't cope, who would be blamed? Indeed, most mobility takes place within Britain – nearly 3 million people move between local-authority areas each year – so even without international migration public services need to be able to cope flexibly with a large number of people on the move (ONS 2016b). And without migrants' net contribution to public finances, there would actually be less funding available for public services for British people – or higher taxes.

Indeed, the perception that public services are under greater strain in areas with more immigrants is often false. Wadsworth (2013) finds that immigrants don't make greater use of doctors and hospitals than people born in Britain. A recent study by researchers at Oxford University found that NHS waiting times are actually lower in areas where there are more migrants (Giuntella et al. 2015). Migrants are typically young and healthy, so make less use of the NHS than the typical Briton, while even older migrants are less likely to see a doctor.

Nor do immigrants tend to harm the quality of public services provided to British people. Researchers at LSE's Centre for the Economics of Education found that the presence of non-native English speakers in the classroom did not harm the performance of British pupils (Geay et al. 2012). Indeed, Polish children actually have a positive effect on UK-born pupils, perhaps because there is a stronger immigrant push to work hard at school.

Moreover, migrants disproportionately provide public services. More than a third of doctors, pharmacists and dentists in the UK are foreign-born, as are more than a fifth of nurses (World Health Organization 2014).¹²

In short, by helping to pay for and provide public services, migrants benefit Britain.

¹² In 2012, 37 per cent of pharmacists, 35 per cent of medical practitioners, 35 per cent of dental practitioners and 22 per cent of nurses were foreign-born, according to Office for National Statistics data reported in World Health Organization (2014).

Do immigrants increase congestion?

The third perceived economic cost of migration is that it increases congestion, driving up the cost and reducing the availability of land and housing, depriving Britons of social housing and overcrowding the roads and public transport. Infamously, UKIP leader Nigel Farage once blamed immigration for traffic on the M4 motorway that delayed his arrival at an event.¹³

Yet it is a myth that Britain is 'full up'. Three-quarters of the country is agricultural land; even in England only a tenth of the surface area is lived on (Evans and Hartwich 2007). Even in cities such as London, there is still plenty of derelict land.

It is true that a rising population – through migration or Britons having more children – raises population density. Some critics of immigration may genuinely prefer to have fewer people around; others who would have no issue with British people having more children use such arguments as an ostensibly neutral way to object to immigration. But most people prefer to live in more densely populated areas. After all, most people choose to congregate in cities, rather than spread out in the countryside. Indeed, the most densely populated constituency in Britain is Kensington and Chelsea, which is hardly a hellhole.

Since people generally have a choice about where to live, they can – and do – self-select. Those who prefer the buzz of diverse cities, the wider selection of potential mates and friends, the better employment opportunities and the greater variety of consumption opportunities can choose to live in cities, while those who want more space and fewer people around can move to the suburbs or the countryside.

Nor does higher population density have to entail increased congestion. Paris is more densely populated than London yet its Metro is less crowded than the Tube. The Netherlands is more densely populated than Britain yet its trains are less cramped. The real issue in Britain is decades of underinvestment in infrastructure, in part because the planning system makes it difficult and costly, but also because successive governments have been reluctant to invest. Yet since public infrastructure tends to raise the value of surrounding land, much of it could be self-financing with a tax on land values.

13 <http://www.telegraph.co.uk/news/politics/nigel-farage/11278440/Nigel-Farage-blames-immigration-after-missing-Ukip-reception.html>

Immigrants are often blamed for high house prices. Yet poorer migrants, who tend to make do with much less space than British people, are scarcely the main cause of the country's increasingly unaffordable house prices. Indeed, ONS (2015c) shows migrants are much more likely to be in private rented accommodation (39 per cent) than people born in Britain (14 per cent) and much less likely to be homeowners (43 per cent) than the UK-born (68 per cent). Shrinking household sizes, a greater availability of credit at low interest rates and government subsidies and tax breaks for home ownership are bigger factors in boosting demand.

In any case, increased housing demand would not be a problem if the housing market worked well: increased demand would lead to increased supply. Unfortunately, Britain's notoriously dysfunctional planning system – notably the ban on building on (often ugly) 'green belts' around towns and cities – severely restricts the supply of new housing, driving up prices instead.¹⁴ That, in turn, creates perverse incentives for developers and investors to speculate on further price rises, leading to repeated housing bubbles. There is therefore a strong case not for restricting immigration, but for deregulating the planning system.

While increased immigration may be a factor in rising house prices at a national level, one study finds that at a local level, increased immigration reduces house prices (Sa 2015). A 1 per cent increase in the migrant share of the population in a local area is associated with a fall in house prices of almost 2 per cent.

The supply of social housing has fallen substantially in recent decades and migrants are often blamed for the resulting long waiting lists. Yet recent migrants are less likely to be in social housing than people born in the UK, while overall the foreign-born and UK-born populations are equally likely to be in social housing.¹⁵ Contrary to public perceptions, there is no evidence that immigrants get preferential access to ('jump the queue for') social housing.¹⁶ Indeed, migrants are less likely to be in social housing than people born in Britain with equivalent demographic, economic and regional characteristics (Battiston et al. 2013).

¹⁴ See, for instance, Hilber (2015).

¹⁵ 13 per cent of migrants who have been in the UK less than five years are in social housing, as are 18 per cent overall. This compares with 17 per cent of the UK-born (ONS 2015c).

¹⁶ See, for instance, Robinson (2010).

In short, increasing population density has benefits as well as costs – and the latter can be mitigated or eliminated through investment and deregulation.

Do immigrants increase crime?

Some migrants turn out to be criminals, as do some Britons. But overall migrants have scarcely any impact on crime. Bell et al. (2013) looked at how an increase in the migrant population affected local crime patterns in England and Wales between 2002 and 2009. Increased migration from A8 countries was associated with a fall in property crime, while higher numbers of asylum seekers were associated with a slight rise in property crime. Neither group had a significant impact on violent crime. Since asylum seekers account for only 0.1 per cent of the UK population, their impact on crime levels was very small.

One explanation for this pattern may be that while A8 migrants have the right to work in the UK and mostly do so, asylum seekers aren't allowed to work when they arrive. While they gain a limited right to work after 12 months, they tend to languish unemployed for years while their asylum claim is processed. Since their access to welfare benefits is also highly restricted, crime may seem like a more rewarding option for some. If so, one way to reduce crime, and the burden on the state, would be to allow asylum seekers to work while their claims are being processed – or at the very least to process their claims faster.

'Cultural' objections

The final category of objection is, to put it kindly, cultural: that newcomers won't fit into British society and may harm it in some way. It is odd that some defenders of individual freedom take a communitarian approach, assuming that everyone ought to fit in, a prescription that they would doubtless resist for someone born in Britain. Others speak of a threat to national identity, even though Britishness is based on civic values not ethnicity – or is Sajid Javid not truly British? So while some people with liberal economic views may also have nationalist or xenophobic political views, such objections scarcely undermine the liberal case for freedom of movement.

Many also argue that immigration undermines social cohesion. Research by the American political scientist Robert Putnam suggests that in the US increased diversity correlates with diminished feelings of trust within a community (Putnam 2000). But America's history of slavery and racial segregation is very different to Britain's immigration experience, so Putnam's findings do not necessarily generalise. Indeed, they have not been replicated in Europe. A comprehensive study of 21 countries concludes: 'Despite several such findings for US society, in Europe it was not confirmed that rising ethnic diversity or even the rate of influx of foreign citizens had any significant detrimental effects on social cohesion' (Hooge et al. 2006). A survey of the literature for Britain by the Adam Smith Institute likewise suggests that diversity does not reduce social cohesion in Britain – and increases it in London (Dobson 2015). That should not be surprising: a sense of community does not need to be based on ethnic homogeneity. Indeed, London's diversity is part of its appeal to most Londoners and enhances a feeling of belonging to the city. The issue of how to ensure people with different values can live together peacefully and productively is discussed in greater detail in section 2.

Underappreciated economic benefits

Britain's main problem with immigration, then, is the wrong-headed perception that it is harmful, when it actually tends to be beneficial.

Migrants contribute to the economy in many ways: as workers of all skill levels, innovators, entrepreneurs, taxpayers, consumers and investors. Their efforts help create jobs, raise the productivity and wages of local workers, lift capital returns, stimulate international trade and investment and boost innovation, enterprise and growth.

Studies that suggest that the benefits of migration to the existing British population are relatively small are misleadingly incomplete. The economic models used are often partial: analyses of migrants' impact on the labour market or public finances ignore their impact on the economy as a whole (which, in turn, also affects locals' wages and employment, as well as taxes and spending). They are usually static: broader general-equilibrium models analyse the impact of immigration in an artificial world without economic growth, where migrants' dynamic impact on investment and productivity growth, and hence on future living standards, is ignored. And even dynamic models generally define away migrants' contribution to

innovation and enterprise, because they assume that new technologies fall like manna from heaven and ignore the role of institutions and individual entrepreneurs altogether. In a neo-classical growth model, which fails to explain technological progress and ignores the role of Schumpeterian waves of creative destruction, Albert Einstein, EasyJet and the City of London simply don't exist.

Studies that take a broader approach tend to find substantial benefits from migration, notably because it raises the diversity of skills and ideas at the economy's disposal, thereby boosting productivity. One cross-country study finds that a 10 per cent increase in the immigrant stock raises per-capita incomes by 2.2 per cent (Felbermayr et al. 2010). Ortega and Peri (2014) find that when the share of a country's population who are immigrants rises by one percentage point, average incomes tend to rise by about 6 per cent – and the diversity of those immigrants provides an additional boost. Boubtane et al. (2015) find that raising Britain's net migration rate by half would raise productivity growth by 0.32 per cent per year.¹⁷

To grow fast, dynamic advanced economies such as Britain need to generate lots of genuinely new – and often disruptive – ideas and then deploy them across the economy. Such ideas sometimes arrive from individual geniuses coming up with incredible insights in isolation – and those exceptional people are disproportionately migrants. Globally, around 30 per cent of Nobel laureates were living outside their country of birth at the time of their award. For example, Venkatraman Ramakrishnan of the University of Cambridge's Laboratory of Molecular Biology, who is also President of the Royal Society, is an Indian-born and US-educated biologist who determined the structure of the ribosome. Other migrant Nobels include Andre Geim, a Russian-born scientist who developed a revolutionary supermaterial called graphene at the University of Manchester, and Christopher Pissarides, a Cypriot-born economist at the London School of Economics. But while individual genius is important, new ideas mostly emerge from creative collisions between people. For those interactions to be fruitful, people need to bring something extra to the party. The saying 'two heads are better than one' is true only if they think differently.

Since I first wrote about this in *Immigrants: Your Country Needs Them*, plenty of research has backed up my case that both immigrants individually and the interaction between diverse people more generally generate new

17 See Table 3 of Boubtane et al. (2015).

ideas (Legrain 2007). As Scott Page of the University of Michigan has explained, groups that display a range of perspectives outperform groups of like-minded experts (Page 2007). His research shows that ‘organisations, firms and universities that solve problems should seek out people with diverse experiences, training and identities that translate into diverse perspectives and heuristics’. That diversity dividend can be large, because an ever-increasing share of our prosperity comes from solving problems – such as developing new medicines, computer games and environmentally friendly technologies, designing innovative products and policies, and providing original management advice. Empirical evidence bears this out. Diversity in general and immigration in particular are associated with increased patenting as well as higher productivity (Legrain 2014).

As well as helping to generate new ideas, migrants help deploy them across the economy through their entrepreneurial dynamism. Britain’s most valuable technology company, ARM Holdings, which designs the chips in most smartphones, was co-founded by Austrian-born Herman Hauser. Europe’s most profitable airline, EasyJet, was founded by a Greek entrepreneur in Britain, Stelios Haji-loannou. Many of the entrepreneurs in Tech City, a hub for technology start-ups in East London, are foreign. For example, two Estonians set up TransferWise, a peer-to-peer currency exchange which enables people to send money abroad without paying the extortionate fees charged by banks. The European Startup Monitor, which represents more than 2,300 start-ups with more than 31,000 employees in all 28 EU member states, showed that 25 per cent of UK start-ups were founded by non-UK EU nationals and 45 per cent of UK start-up employees come from non-UK EU countries.¹⁸ Overall, newcomers to Britain are nearly twice as likely to set up a business as people born in the UK.¹⁹ Contrary to the belief that only some immigrant cultures are entrepreneurial, Global Entrepreneurship Monitor surveys show that in Britain all their categories of immigrant are more entrepreneurial than white UK-born people (Levie and Hart 2009).

Migrants tend to be more enterprising than most because they are a self-selected minority who have taken the risk of uprooting themselves and tend to have a burning desire to get ahead. Like starting a new business, migrating is a risky enterprise, and hard work is needed to make it pay

18 European Startup Monitor (2015), ‘European Startup Monitor’, http://europeanstartupmonitor.com/fileadmin/presse/download/esm_2015.pdf

19 Migrants to the UK had a total entrepreneurial activity rate of 16 per cent, compared to 9 per cent among UK-born people (Centre for Entrepreneurs 2014).

off. Since migrants usually start off without contacts, capital or a conventional career, setting up a business is a natural way to get ahead. And because outsiders tend to see things differently, they may be more aware of opportunities and go out and grab them.

While Britain's future prosperity depends on developing new high-productivity activities and nurturing existing ones, a large share of future employment will be in low-skill, low-productivity location-specific activities, precisely because such tasks cannot readily be mechanised or imported. The area of fastest employment growth in Britain is not in high-tech industries, but rather in care for the elderly. Yet retirement homes already cannot find enough suitable local applicants for care-working vacancies, nor can the elderly be properly cared for by a robot or from overseas. Persuading young local people who would rather do something else to work in a retirement home would require a substantial wage hike – and that implies pensioners making do with much less care, big budget cuts elsewhere, or large tax rises.

Critics who counter that that Britain could survive without migrant labour may be literally correct – Robinson Crusoe scraped by alone on his island – but autarky would make us all much poorer. While alternatives may exist – paying higher wages may induce a higher local supply of labour, or over time induce people to acquire the skills required for jobs in demand; some jobs can be replaced with machines or computers; some tasks can be performed overseas – closing off one's options clearly has a cost. Without foreign labour, for instance, English strawberries would go unpicked, or be so prohibitively expensive that Spanish ones picked with foreign labour would be imported instead. Like trade barriers, immigration controls reduce Britons' welfare – and by raising the cost of products and services, they harm the poor most.

Problems with immigration policy

Britain's biggest problem with immigration is the incorrect negative perceptions of it. But as a result the government's immigration policy is also deeply flawed. Its overarching goal is the wrong-headed and arbitrary target to reduce net migration – the difference between the large churn of people (including UK citizens) entering and leaving Britain's open economy each year for all sorts of reasons – to 'tens of thousands' a year. Such a target is absurd, not least because the government cannot control emigration or (for now) immigration from the EU. In the forlorn pursuit of this target, first the coalition government and then the Conservative one have imposed myriad complex and harmful new restrictions on people moving to Britain, on top of those introduced by the previous Labour administration. The conspicuous and repeated failure – despite all the new measures – to achieve the government's target has compounded a loss of trust in public policy.

Politicians' failure to keep their foolish promises has exacerbated the misperception that Britain has an 'open door' to foreigners. In fact, it has a dual immigration system. For now, citizens of Switzerland and the EEA (the EU plus Norway, Iceland and Liechtenstein) are free to move to Britain – and likewise UK citizens to the rest of the EEA. In contrast, non-EEA citizens must meet elaborate conditions to obtain a work, student, family, refugee or other visa from the government. And contrary to the perception that an open door for EU citizens entails everyone trying to move to the UK, only 3.3 million citizens of other EU countries live in the UK out of some 440 million EU citizens who have the right to move here (Wadsworth et al. 2016). While immigration from the EU has risen substantially in recent years, it has always been lower than immigration from outside the EU (ONS 2016c).

Political debate – notably during and since the EU referendum campaign – generally presumes that a system that provides 'control' over migration is inherently superior to one permitting people to move freely. Yet the self-selected EU migrants who have freely chosen to move to the UK have proved to be particularly beneficial. They are often highly educated: 43 per cent have some form of higher education, compared with only 23 per cent of UK-born residents (Wadsworth et al. 2016). They are much more likely to be employed than British people: 78.2 per cent of EU immigrants and 81.9 per cent of the much-maligned A8 migrants are employed, compared with 72.5 per cent of UK-born residents (ibid.). And they are

particularly large net contributors to public finances, as detailed above. Freedom of movement is in fact a huge success.

In contrast, the bureaucratic controls that seek to limit non-EU migration and select the 'right' migrants are misguided, fail to achieve their stated aims and impose all sorts of additional costs.

Some are immoral. A UK citizen now needs to be earning more than £18,500 a year in order to obtain a visa for their spouse to live with them in Britain. By what right does government dictate whom we can share our love life with? This is Romeo and Juliet against a backdrop of twenty-first century bureaucracy.

In order to deter so-called 'economic migrants' from masquerading as asylum seekers, people fleeing persecution and death are prevented from working altogether for a year while their asylum claim is being processed. After that, asylum seekers are allowed to work only in designated shortage areas, which in practice means that hardly any do. There is no evidence that this deters other migrants from coming to Britain. But it does impose unnecessary suffering on asylum seekers and increase resentment of them, because instead of working and contributing to the economy, they are forced to remain idle and a burden on the state.

Attempts to cut international student numbers at a time when the fiercely competitive global market for education is growing fast are hampering a sector in which Britain has clear strengths, notably the English language and a world-class university sector with tuition fees much lower than those in the United States. It is particularly perverse that the government now prevents foreign graduates from staying on to work in Britain once they finish their degree. This deters some students from coming and deprives British-based businesses of talented workers who speak English, have a British degree and know local norms, as well as having a foreign background and connections. It is incoherent of ministers to seek to attract more international students – as the then Prime Minister David Cameron did on a trip to India, for instance – while at the same time making it harder for them to come.

International students are a huge boon to the British economy. UK education exports are worth some £17.5 billion a year, making it the fifth-largest services export sector (BIS 2013). Kell et al. (2014) show that university students contribute to the economy through the tuition fees they pay (some £3.2 billion a year in the case of non-EU students), their additional spending

(some £4.9 billion for non-UK students) and the knock-on impact this has (some £7.4 billion). They also boost UK research and innovation, accounting for 45 per cent of early-career researchers (British Council 2016). Non-EU students pay much higher fees than UK ones do – in effect, they subsidise them. In the case of the London School of Economics, for example, UK undergraduates pay £9,000 a year, while non-EU ones are charged £17,712.²⁰ PhD students from outside the EU are charged four times more than British ones.

International students make more courses viable, increasing choice for UK students, helping to attract and retain better professors and providing greater employment opportunities for UK academics. They also enhance the educational experience of British students: 87 per cent say that studying with foreign students gives them a better world view, 85 per cent that it is useful preparation for working in a global environment and 76 per cent that it helps them develop a global network.²¹ Through the networks they create and their experience in Britain, foreign students also boost UK exports more broadly. They also develop connections with – and, with luck, affection for – Britain. This boosts future trade, investment and the ‘soft power’ of British culture, not least since 55 foreign leaders were educated in Britain.²²

The system for regulating work visas is equally bone-headed. During the EU referendum campaign, Vote Leave pledged to introduce an ‘Australian-style points-based system’ to determine who could come work in Britain, a pledge that Theresa May has since rejected. Yet the UK already has a points-based system. This was introduced by the previous Labour government and has been refined by the current one. It doesn’t work well.

For a start, its premise that Britain benefits from (some) high-skilled immigration but not from the lower-skilled variety is economically illiterate, as previously discussed. It is equivalent to arguing that Britain benefits from importing American software, but not Chinese clothes.²³ Indeed, a new International Monetary Fund (IMF) study finds that both high-skilled

20 <http://www.lse.ac.uk/intranet/students/moneyMatters/tableOfFees/2016-17%20Fees%20Table.pdf>

21 Higher Education Policy Institute (HEPI) and Kaplan International (2015) quoted in Morris et al. (2016).

22 Ibid.

23 Indeed, according to the modern trade theory of comparative advantage based on factor endowments, an economy such as Britain where low-skilled labour is relatively scarce would benefit more from low-skilled migration than the higher-skilled variety.

and low-skilled migrants have a positive impact on productivity of a similar magnitude (Jaumotte et al. 2016).

It's not just the premise that low-skilled migration is undesirable that is flawed, it's the misguided belief that ministers can micromanage the manpower needs of the large, complex and ever-changing British economy better than the market. Instead of migrant workers being matched to employers in the market place, the government arbitrarily and inefficiently dictates how many and what kinds of worker from outside the EEA can enter and what kinds of jobs they can do. Just think how damaging such policies would be if applied between London and the rest of the country or between England and Scotland. Why should it be any different between Britain and the US?

There are no more than 1,000 Tier 1 visas a year for people deemed to be of exceptional talent. Why? The quota for Tier 3 low-skilled workers is zero. Why? These are arbitrary and absurd caps. There are also 20,700 Tier 2 visas for skilled workers with a job offer that pays at least £20,800 (rising to £25,000 this autumn and £30,000 in April 2017) in an area deemed to be a shortage occupation by the MAC. Yet many skilled occupations on the shortage list pay less than £30,000, notably secondary-education teachers, nurses and chefs. So, adding further complexity, the government has granted a temporary reprieve to nurses, paramedics, radiographers and secondary teachers in mathematics, physics, chemistry, computer science and Mandarin until July 2019 – but not to chefs. This manpower micromanagement by ministers and officials who lack the information and incentives to divine labour-market needs is reminiscent of the Soviet Union.

More fundamentally, governments cannot anticipate how migrants will contribute to Britain in future. By definition, new opportunities open up once they move to Britain, including ones they create themselves. As Kristian Niemietz (2016) of the IEA has rightly observed, 'Indian food has become part of the staple diet in the UK, but in the 1950s, no points-based system would have detected an unfulfilled demand for chicken tikka masala and lamb rogan josh'. Indeed, it is impossible to identify in advance how, or how much, anyone will contribute to society, let alone how their children will. Nobody could have guessed, when he arrived in the United States as a child refugee from the Soviet Union, that Sergey Brin would go on to co-found Google. Had he been denied entry, America would never have realised the opportunity that had been missed. How many potential Brins does Britain turn away or scare off – and at what cost?

Britain's costly, time-consuming and devilishly complicated immigration system for non-EEA migrants is a boon to immigration lawyers, gives arbitrary powers to Home Office officials and penalises smaller businesses that struggle to navigate the system. Like all trade barriers, it prevents mutually beneficial exchanges and thus makes Britain worse off. Worse, the Brexit vote could see this absurd, harmful migration system extended to the aspect of UK immigration policy that currently works well: free movement for EEA citizens. Since the flexibility of free movement for EEA citizens partly compensates for the rigidity of the system for non-EEA ones, applying the non-EEA rules to all migrants would be especially harmful.

Immigration restrictions don't just deny people a vital freedom and harm Britain's economy; they drive migration underground. Just as high trade barriers encourage smuggling, banning most migration from outside the EU leads to irregular migration: visa overstaying, document forging, people smuggling and so on. By definition, it is hard to know how many migrants are living in the UK without permission. The last credible guesstimate, in 2009, put their numbers at between 420,000 and 860,000 (Gordon et al. 2009). Imposing restrictions on EEA migration would doubtless greatly increase the number of irregular migrants.

Trying to ban immigration creates huge costs: a humanitarian crisis, with thousands dying each year trying to reach Europe and many more detained; the soaring expense of border controls and bureaucracy; a criminalised people-smuggling industry; an expanding shadow economy, where illegal migrants are vulnerable to exploitation, labour laws are broken and taxes go unpaid; an undermining of faith in government, because politicians cannot deliver on their promises to halt immigration; a corrosion of attitudes towards immigrants, who are perceived as law-breakers rather than as hard-working and enterprising people; and the mistreatment of refugees in an attempt to deter people who want to come work from applying for asylum, besmirching our commitment to help those fleeing terror.

These problems are generally blamed on immigrants, but they are actually due to our immigration controls. It should be obvious, even to those who view immigrants as a threat, that our immigration controls are not just costly and cruel, but ineffective and counterproductive. Far from protecting society, they undermine law and order, just as Prohibition did more damage to America than drinking alcohol ever has.

Those who claim that tougher measures could stop irregular immigration are peddling a false prospectus. Even if, at huge cost, Britain deployed an armada to patrol its coastline, searched every arriving vehicle and vessel, denied people from poorer countries visas altogether and enforced stringent internal checks on people's right to be here, some migrants would get through: documents can be forged or stolen, people smuggled, officials bribed. Even in a police state, borders would be permeable. East Germany had a shoot-to-kill policy and still people tried to cross the Berlin Wall. Politicians should have the courage to stop fighting a counterproductive war against migration and instead treat immigration as an opportunity.

Solutions

Freedom of movement

Given the wealth of evidence, Britain ought to allow people to come and go freely. Freedom of movement was official government policy in the nineteenth century; as recently as the 1950s a Conservative Home Secretary stated that this was an ‘inalienable right’ for Commonwealth citizens. As this paper has explained, it works well for EU migration now. It could work well for migration from the rest of the world in future.

Freedom of movement is a fundamentally important freedom. It offers an escape route when things go wrong, as well as opportunities of a better life. Even in a prosperous peaceful country such as Britain, people tend to place a very high value on freedom of movement. Asked what the EU means to them personally, Britons’ top answer by far is the freedom to travel, study and work anywhere in the EU (European Commission 2014).²⁴ Nearly 2 million Britons live elsewhere in the EU and many more spend part of their year abroad or have lived abroad at some point (Financial Times 2014). Following the Brexit vote, many young Britons were distraught at the prospect of being stripped of a vital freedom and all the opportunities that flow from it.

Freedom of movement could also deliver huge economic gains. This ought to be uncontroversial. After all, free trade is generally considered to be beneficial to Britain. Yet if the free movement of goods and services is a good thing, then surely so too is the free movement of the people who produce those goods and services.

24 QA11: 37 per cent of Britons say freedom of movement.

Cross-border labour mobility is a form of international trade. Take a British patient who seeks treatment from a foreign surgeon. If the Briton goes abroad to have the operation, this is classified as trade; if the surgeon comes to Britain to perform it, this is classified as migration – yet the operations are analogous. Likewise, consider a British company that outsources its back-office work to an Indian IT company. If the Indian computer programmers perform the work in Bangalore, it is called trade; if they come to do the work in Birmingham, it is called migration. In cases where services have to be delivered locally – old people cannot be cared for from afar; offices and hotel rooms have to be cleaned on the spot; food and drink have to be served face to face; buildings have to be erected *in situ* – international trade is only possible with labour mobility. Thus if Poland's comparative advantage lies in construction services, Poles need to be able to move to Britain for them to trade.

Foreign direct investment (FDI) – companies from other countries investing in starting, expanding or buying operations in Britain – is also widely accepted to be beneficial. It tends to boost productivity, provide well-paid jobs, raise exports and transfer better technologies and managerial know-how.²⁵ Yet reaping those benefits tends to require people to move too – be they American bankers in US investment banks in the City of London, Japanese managers in car factories in the North of England or people from around the world working in diverse teams for multinational companies.

International flows of goods, services, capital and labour are intrinsically intertwined. So the common view that international migration is wholly separate from international trade and investment and, unlike the latter, undesirable is economically unsound. On the contrary, in an open economy in which production and exchange no longer stop at national borders, it is increasingly important for people – be they British businesspeople or Polish plumbers – to move freely, not just within Britain but also internationally.

Thus contrary to Boris Johnson's claim that the EU single market and free movement 'have nothing to do with each other', they are, in fact, tied to each other by both political principle and economic logic.²⁶ Disagree? Then consider how much of a single market Britain would be if the movement

25 See, for instance, Bloom et al. (2012) and Alfaro et al. (2004).

26 On 22 September 2016, Boris Johnson stated on Sky News that 'They would have us believe that there is some automatic trade-off between what they call access to the single market and free movement. Complete baloney. Absolute baloney. The two things have nothing to do with each other. We should go for a jumbo free trade deal and take back control of our immigration policy'.

of people between England and Scotland – or between London and the rest of the country – was restricted.

Nobody argues that Britain would be better off if migration between different regions was restricted. Economically, freedom of movement is clearly superior to segmenting the labour market and entrepreneurial opportunities. Indeed, migration is a crucial element of economic growth and development. People often need to move to where the jobs are – and by coming together in diverse cities, dynamic people create new ideas and businesses. That is true within Britain and also internationally. Just as it is a good thing for people to move from Liverpool to London if their labour is in demand there, so too from Lisbon or Lahore.

Freedom of movement encourages the allocation of labour to its most efficient use. Like other forms of international trade, migration enables Britain to specialise in what it does best, reap economies of scale, foster dynamic clusters and improve the variety, quality and cost of local products and services. In the case of services, in which Britain specialises, immigrants provide a triple boost (Ottaviano et al. 2016). Their complementary skills boost productivity, reducing production costs and raising exports. Their knowledge of the business culture in their country of origin further helps to lift exports to that country.

Increased mobility also makes the economy more flexible, allowing it to adapt more readily to change. Last but not least, foreigners' dynamism and diversity boost competition, innovation and enterprise, raising long-term productivity growth and living standards. A free-movement policy would also dispense with the costly immigration bureaucracy for non-EU migrants.

From a global perspective, enabling people to move to economies that are more technologically advanced, have higher levels of capital and better institutions, such as the protection of property of rights and the rule of law, would increase both their welfare, and indeed the overall size of the economy. By some calculations, global freedom of movement could more than double the size of the world economy.

Specific exceptions

The economic case for freedom of movement is based on the generally correct assumption that people move as individuals seeking a better life by working in Britain. But there are caveats. Clearly, it would not be desirable to allow the Russian army to march into Britain unimpeded. For similar reasons, one might wish to exclude individuals with harmful intentions, such as known terrorists, dangerous criminals and agents of hostile foreign governments. One might also want to keep out – or at least quarantine – people with a highly infectious and dangerous disease, be they foreign or British citizens.

But the threat of terrorism is not a good reason to limit freedom of movement in general. During the Irish Republican Army's long bombing campaign on British soil, we did not treat all Irish people as a potential threat, and the British government continued to let Irish citizens travel to Britain freely without a passport. Governments need to combat terrorism through measures that are targeted, proportionate and effective, such as intelligence and surveillance. Restricting immigration is none of those things.

Rights and values

The economic right to work is also distinct from the social right to welfare and the political right to vote. Allowing foreigners to work freely in Britain need not entail immediate access to non-contributory welfare benefits or social housing. And it need not – and should not – entail immediate citizenship rights. Liberal democracy requires the acceptance of constrained majority rule, which in turn requires acceptance that one is part of a shared political community. In practice, British citizenship is generally obtained through birth in the UK, birth abroad to British citizens or naturalisation. What the ideal naturalisation terms should be is beyond the scope of this paper, but it surely requires a stronger connection to the British political community than simply arriving to work.

A bigger issue is how to ensure people with different values can live together peacefully and productively. Learning to live together can be tough and problems can arise. But societies have wrestled with these issues throughout history. They do not arise solely because of immigration: they apply to each individual and group that must find a place for themselves in society. And if British society is broad enough to include nuns and atheists, Marxists

and libertarians, radical environmentalists and oil-company bosses, surely it can embrace many different kinds of immigrant too?

People don't all need to be alike in order to live together. We just have to respect the basic principles on which our liberal democracy is based: laws are made by people, not God; the people who make those laws are elected; and their ability to make laws is constrained by certain fundamental principles such as freedom within the law, equality before the law and tolerance of differences.

These are not 'British values', they are liberal ones. They are shared by many non-Britons and rejected by some Britons, notably far-right bigots and far-left radicals. While people cannot be forced to believe in liberal values, they can be required to obey the law: even those who believe that women are not equal to men must treat them as such. Likewise, people can dream of a communist or Islamist revolution, argue for it peacefully, but not act violently to achieve it.

Of course, all societies fall well short of the lofty ideals of liberal democracy – discrimination is rife and tolerance limited – but they are still the standards we aspire to and the basis of our peaceful coexistence. Liberals must always be vigilant to defend Britain's liberal institutions – not least against authoritarian governments – but this is scarcely sufficient grounds to restrict freedom of movement.

In short, the first-best economic policy is freedom of movement, except in the rare occasions where there are overwhelming political, security, health or other costs. Politically, though, complete freedom of movement may be unachievable for now. The paper will therefore outline a range of next-best alternatives that seek to maximise the economic benefits of migration given those political constraints.

The Swedish system

A second-best alternative to freedom of movement would be an immigration policy along the lines of the one introduced by Sweden's liberal conservative government in 2008. This allows companies based in Sweden who cannot find suitable local workers to hire people of all skill levels from anywhere in the world on two-year renewable visas, with no limit on entry numbers. It is an open, flexible and non-discriminatory system that provides many of the economic benefits of free movement, while reassuring voters that migrants are coming only to work. It also doesn't set an arbitrary cap on entry numbers. However, since it applies only to work, separate immigration systems would still be needed for other categories of entry, such as students, family reunification and asylum.

A migrant levy

A third-best alternative would be to replace the Byzantine system of immigration quotas and rules with a simple, non-discriminatory pricing system. In 2011, the IEA published a paper by the late Gary Becker of the University of Chicago in which he advocated what he called a 'radical solution' to the 'challenge' of immigration: charging a fee to ration immigration by price (Becker 2011). He suggested an entry fee of \$50,000 (around £40,850), although obviously this could be pitched higher or lower.²⁷

Becker's suggestion isn't that radical. In Singapore, the government sets and regularly revises flexible 'foreign-worker levies' that employers must pay to hire an immigrant. The levies differ by industry and by skill.

Becker's plan also suffers from big flaws. Charging an upfront lump-sum fee would keep out low-skilled, low-earning migrants who nonetheless provide large gains from trade by doing vital jobs such as caring for the elderly. Worse, Becker's scheme is based on the incorrect presumption that migration is mostly a one-off move to settle permanently elsewhere. Yet most migration is now temporary, especially when people can move freely. Three-quarters of the people who migrated to Britain in 1998 had left again a decade later, while among A8 migrants who were free to move to the UK after 2004, half were gone again by 2008 (Finch et al. 2009). Becker's lump-sum fee would greatly deter beneficial temporary migration,

²⁷ Exchange-rate conversion on 23 October 2016.

while perversely encouraging others who might wish to move temporarily to stay more permanently. He assumes that permanent settlement is more beneficial, but doesn't substantiate that claim. People's behaviour when they can move freely suggests otherwise.

Nor is Becker's suggestion original. I put forward a similar but better idea in my book, *Immigrants: Your Country Needs Them*, which was written in 2005 and published in 2007 (Legrain 2007):

'It would be preferable if governments instead adopted policies that do not discriminate arbitrarily between different types of people. And if they are to regulate inflows of workers, they should do so through taxes rather than quotas. They could, for instance, charge a set fee for prospective migrants, pitched higher or lower according to the desired restrictiveness of the policy. The fee could be raised or lowered at will. Alternatively, the government could impose an extra payroll tax on migrant workers, payable by employers. Such a scheme would have several advantages: it would be transparent; it would be flexible; it would raise revenue that could be spent, for instance, on retraining domestic workers, highlighting the contribution to the economy that immigrants make. In the case of skilled workers, the revenue could be used to compensate developing countries for their investment in training them. The tax would also give companies an incentive to hire and/or train domestic workers. Even if the tax were set relatively high, it would undercut people smugglers. And over time, if natives became more relaxed about immigration, the tax could be gradually lowered – or raised again, if immigration provoked unexpected problems. Such a policy is not a patch on fully open borders, but it would still make much more sense than the policies that rich-country governments generally employ now.'

Charging a higher national-insurance rate on migrant workers would not discriminate against low-skilled or temporary migration. However, any import tax would still limit immigration to below its economically optimal level and impose a deadweight loss.

Desirable reforms

At the very least – if none of those three options is achievable – immigration ought to be more open and better regulated. Admission rules should be simpler, more coherent and non-discriminatory.

Increasingly complex rules create additional bureaucratic and legal costs for government, businesses and migrants, as well as greater uncertainty and unpredictability. The latest statement of changes to the immigration rules alone is 79 pages long and there have been 48 such changes since 2010!²⁸ Openness and simplicity go hand in hand. Freedom of movement is the simplest policy of all, while more open policies tend to be simpler, since the main purpose of complex rules is generally to keep out as many people as possible. Likewise, a skills-neutral work-permit system would be preferable to the current skills-biased points-based system not just because it would be non-discriminatory; it would also be simpler and less bureaucratic.

The absurd net migration target should be scrapped. Even if the government were to impose controls on EEA immigration, it would still not control emigration and would have only partial control over immigration, unless hard quotas were imposed. But hard quotas are extremely costly. They are inflexible, because they set an annual cap beyond which even the most desirable or deserving immigrant cannot enter. They are inefficient, because the entry price for those within the quota is low, but this suddenly jumps to infinity when the quota is filled. And they are arbitrary because any quota cap is either plucked out of thin air because it sounds good (for instance, ‘tens of thousands’) or involves a pseudo-scientific guess of the manpower needs of the entire British economy. For the same reason the quotas on Tier 1 and Tier 2 visas ought to be scrapped. In the absence of harmful hard quotas, the net migration target creates a political incentive to create new arbitrary restrictions without thinking through their costs or implications, solely to get headline numbers down. Home Secretary Amber Rudd’s suggestion that businesses should be forced to list their foreign employees to name and shame those that don’t hire ‘enough’ British workers is a recent example of this.

Scrapping the net migration target may make it politically possible to let in freely politically uncontroversial categories of migrant, notably international

28 <https://www.gov.uk/government/publications/statement-of-changes-to-the-immigration-rules-hc535-29-october-2015>

students. The deeply illiberal restrictions on poorer UK citizens obtaining visas for foreign spouses could also be scrapped.

Pathways

This paper has argued that freedom of movement is the first-best policy for Britain, on the basis of liberal values as well as on economic grounds. But beyond declaring an immediate policy of freedom of movement, what are the pathways to achieving this?

Since cross-border labour mobility is, in effect, a form of international trade, trade theory is instructive. Globally, the first-best outcome is free trade and independently of what other countries choose, the first-best economic policy for Britain is unilateral free trade. But there are at least three reasons why the government might nonetheless wish to sign an international trade agreement. First, because in the event that unilateral free trade was politically unachievable, the prospect of negotiating better access to foreign markets could help overcome protectionist domestic interests that fear import competition, and thus make it politically possible to lower British trade barriers. Second, as a result, such a trade agreement could give British exports better access to foreign markets, and thus enable Britain to import more. Third, because trade agreements tie governments' hands, raising the political cost of erecting future trade barriers. Ideally, such a trade agreement should be global, or at least as nearly global as possible – that is, with the members of the World Trade Organisation (WTO). Otherwise, a regional or bilateral trade agreement implies a cost: giving privileged access to imports from countries in the agreement at the expense of those from non-signatories.

One can reason similarly with mobility. The first-best outcome globally is freedom of movement and, independent of other governments' policies, the first-best policy for Britain is unilateral openness to foreigners. But insofar as this is not politically possible, greater openness to foreigners may be achievable as part of a treaty that offers Britons the right to move to other countries and raises the political cost of trying to raise future

immigration barriers for protectionist and/or nationalist reasons. Ideally, such an agreement would be global, but insofar as this is not possible, a treaty that provides for freedom of movement with some countries would be a step forward.

Britain already has a policy of two-way freedom of movement with the EEA. Following the Brexit vote, this is now at risk. But the benefits of two-way freedom of movement do not have to be – and should not be – sacrificed. Since the referendum was about whether to remain in the EU or leave (in an undefined way), the Leave vote does not represent a democratic instruction to limit migration from the EU, even though it seems to have been interpreted as such by the government. Since 48 per cent of voters wished to remain in the EU and at least some of the 52 per cent were liberal Leavers who are against immigration controls, it is not self-evident that there is a majority for ending free movement. Indeed, two-thirds of Britons say they would not sacrifice a single pound of their personal income to reduce immigration from the EU (ComRes 2016). Since controls on EU migration would clearly be costly, a big majority of voters would oppose ending freedom of movement if they realised that it would make them worse off. To ensure democratic legitimacy, a final Brexit deal including free movement could be put to a second referendum.

Maintaining two-way freedom of movement is a prerequisite for remaining in the EU single market. But if, for some reason, Britain wished to leave the single market, it could still seek to maintain two-way freedom of movement. If Britain tried to negotiate a looser free-trade agreement, perhaps along the lines of the one that the EU has negotiated with Canada, offering to maintain two-way freedom of movement would maximise the chances of maintaining open markets in other areas.

As well as maintaining two-way freedom of movement with the EEA, Britain could seek to strike two-way free-movement deals with other countries and regions. For example, the Closer Economic Relations agreement between Australia and New Zealand involves the free movement of people as well as free trade in goods and services. Britain could aim to conclude a similar deal with those countries and gradually seek to extend such reciprocal agreements more widely. The downside, of course, is that such deals would be discriminatory and would do nothing to enable an Indian-born would-be internet entrepreneur or curry chef to come to Britain. So the aim ought to be to negotiate many such deals, including with poorer economies.

One of the many advantages of freedom of movement is that the granting of visas based on bureaucratic categories of entry – such as work, study, investor, entrepreneur, family and asylum – could be scrapped. But in the transition phase, they would still be relevant. And instead of proceeding in a piecemeal fashion geographically, one could also liberalise according to category of entry.

Work visas could be granted automatically to those with a job offer. Student visas could be granted automatically to anyone registering for a UK education course; studying English would be as legitimate as studying physics. Once they finished their studies, foreign students would be free to look for work in Britain. Family visas could be granted automatically to the immediate family of a migrant or UK citizen. To reassure about welfare costs, newcomers could be denied access to welfare benefits initially. Asylum seekers could be allowed to work while their asylum claims are processed, minimising the initial fiscal cost of welcoming them and fast-tracking their entry into the labour market and society. The government could also agree to resettle more refugees. Undocumented migrants in Britain could have their situation regularised. Bringing them out of the shadows would boost tax revenue, strengthen the rule of law, reduce exploitation and criminal abuse, and give them greater opportunities to better themselves.

As this paper has shown, there is no evidence that Britain's welfare system acts as a magnet for EU migrants who currently enjoy the right to move here freely. Nor do EU free-movement rules prevent non-discriminatory welfare reforms – that is, ones that apply equally to all EU citizens, akin to the WTO principle of national treatment in trade. So if the UK decided to remain in the single market, it would still be free to restrict welfare benefits, providing it does so for all potential recipients. Moreover, the EU's Free Movement Directive makes clear that the right to move and reside freely is not absolute. In theory, after three months an EU national without a job has no right to remain in another EU country unless they have sufficient means not to become an 'unreasonable burden' on the welfare state.

If there are worries about the consequences for the welfare system of extending freedom of movement to non-EEA citizens, they could be addressed in several ways. One is to deny migrants access to welfare benefits until they have worked for a certain time. In effect, this initial period when they are working but not eligible for benefits is akin to a

contributory system. Such restrictions are already in place: most non-EU migrants are admitted on condition that they have no access to public funds for up to five years.

A second, more ambitious reform would be to switch to a contributory system for welfare benefits. However, at current levels of welfare provision, financing benefits out of national-insurance contributions rather than general taxation would entail higher marginal tax rates on labour. This increased tax wedge would be harmful for employment and wages. So a quasi-contributory system with an initial qualification period would be a better solution. This could potentially apply to all workers, young Britons as well as newly arrived migrants.

Since migrants tend to be net contributors to public finances, any pressure they may put on public services is due to the failings of those services rather than migrants' failure to pay their way. Indeed, most mobility takes place within Britain, so public services need to cope better with change in any case. A priority, therefore, should be to improve the efficiency and flexibility of public-service delivery. After all, the private sector, be they hotels or supermarkets, copes fine with fluctuations in demand.

Perhaps the most important policy shift, which again is necessary for reasons other than migration, is to relax planning controls. Britain's labour markets and most of its product markets are admirably flexible, but its land and property markets are sclerotic. Making housing supply more responsive to shifts in demand would deliver huge economic benefits.

Infrastructure development also needs to keep pace with a rising and shifting population. The planning system needs to be streamlined, so that projects such as the building of new airport capacity in the London area takes less than seven decades. Finance for viable projects also needs to be more readily available. One way to automatically finance infrastructure projects that enhance surrounding land values, such as the Elizabeth Line across London, would be through a tax on land values. But the need for broader reforms to Britain's economic management do not negate the case for freedom of movement.

Conclusion

Immigrants make a huge contribution to Britain. But the UK has two big problems with immigration: the incorrect negative perceptions of it and the resulting flawed and restrictive immigration policy. The solution is to work towards freedom of movement while seeking to change public perceptions and addressing costs and problems that are due to flawed government policies. With the government having interpreted the Brexit vote as a demand for illiberal policies in immigration and elsewhere, liberals need to stand and fight for the free, open society that they believe in and all the economic opportunities that flow from this.

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