

What are the impacts of an international migration quota?

Third Prize – 1st Year Undergraduate Category

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Abstract

The UK already has strict migration guidelines in place, but with the Conservative Government wanting to reduce net migration in the UK from 250,000 in the year to June 2011 to 'tens of thousands' before the end of the current government. What could the economic impacts be of a strict migration quota? And what might happen if that quota was increased or abolished?

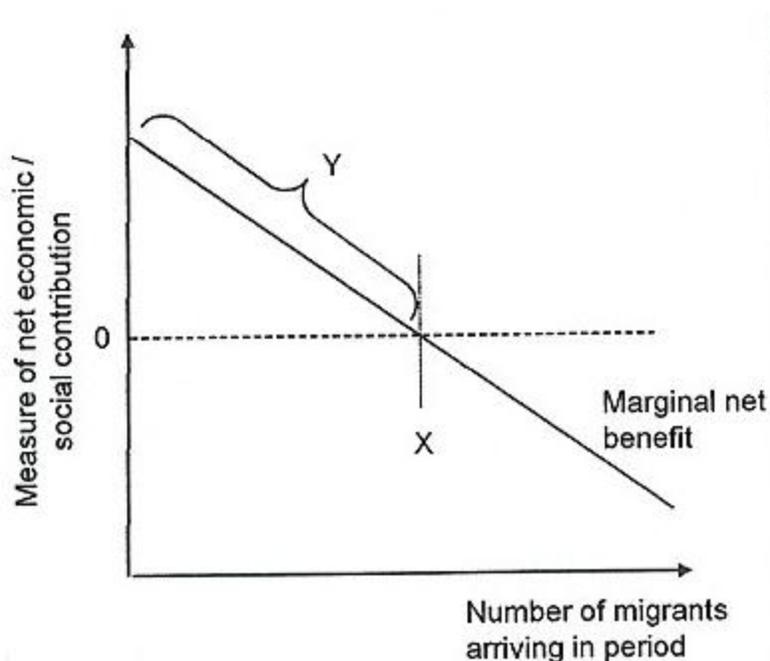
Before examining the impact of a migration quota, it is important to first think about why people migrate between countries in the first place. Opportunity differentials between the sending and the receiving countries are a key reason as migrants believe the country they are going to can provide them with something which the country they are leaving cannot. Push and pull factors are used to categorise reasons for migration which may include the offer of a job or education, family, safety or simply happiness. This question is particularly relevant at this moment in time with the UK government's targets for net migration to be in the 'tens of thousands' before the end of the current government in 2015. This would mean a huge fall in the number of immigrants entering the UK.

However, the UK has very little control over much of its migration. Emigration figures are currently falling and the government is powerless in this area as it clearly cannot force or

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incentivise people to emigrate from the UK. Additionally, the UK cannot control immigration from within the EU. This leaves immigrants from outside the EU as the only variable they can control. In this essay it will be discussed whether it is desirable to or not. The current system in the UK splits potential immigrants into different categories; there are workers who are assumed to be split into skilled and non-skilled workers for simplicity, students coming to the UK to study and people for non-economic gains including family members and dependants.

Ideally, the limit for any migration would simply be set at the point where marginal cost is equal to marginal benefit, where the economic and social cost of an additional migrant is equal to the marginal benefit. More simply, the marginal net benefit is zero. However as with many things in economics, it is very difficult to estimate and put a comparable value on the costs and benefits on a migrant and this value would vary with each migrant considered. On the graph, this would mean admitting X number of migrants, with a selection process designed to admit those in area Y. As this is very difficult or impossible, it is important to instead look at the effect on the economy of changing the different areas of migration.



Source: British Immigration Policy and Work Lecture, Slide 11

The most common reason for migration with over 40% of the total number of migrations to the UK was full time education¹, mostly university and college courses, and that figure is set to rise even further with applications from international, non EU, students increasing by 13.7% for 2012 intake². These students are of vital importance to the UK, as education is a hugely lucrative export market in which UK sits second, behind only the US³, in the most popular destinations for foreign students. A migration quota resulting in a fall in students and therefore exports would, ceteris paribus, mean a fall in GDP, as looking at the simplest expenditure method of calculating GDP:

$$\mathbf{GDP = C + I + G + (X-M)}$$

A fall in X would result in a fall in GDP because international students are a huge contributor to the GDP of the UK. Not only do they have much greater fees than home students, on average £11,435 per year in 2010/11 compared to just £3,323 for home students⁴, but they also consume goods and services during their stay in the country. An important fact to note however, that many of these students, upon completion of their course, will return to their country of origin. Therefore, although the IPS, the Identity and Passport Service, definition of long term migration is that of more than one year, it is clear many will not become permanent residents of the UK. The ones who do however may stay on to fulfil graduate level roles and therefore become skilled workers in the economy, the impact of which will be considered later. These facts have led many people to argue that students should be excluded from migration statistics, however opposition claim that student visas are an easy way into the UK to work and that many apparent 'students' in fact go missing.

The reduction in the number of skilled workers into the country could result in increased unemployment, as there would be vacancies for jobs which UK or EU nationals do not possess the skills for, which without a quota would be filled by foreign workers. This structural unemployment would mean that firstly, there would be a fall in output as companies would not

¹ Migration Statistics Quarterly Report February 2012

² UCAS Release

³ Universities feel the squeeze on immigration

⁴ Tuition fees 2010/11: find out how much each university charges

be able to recruit people to fulfil their needs and could mean they relocate to somewhere that they are allowed to recruit the right people for their job. Secondly, the government would have to invest heavily in training and education so that in the future people do have the right skills for the jobs available, if it was the case that workers couldn't be brought in from abroad. It is evident that skilled workers contribute to growth and productivity.

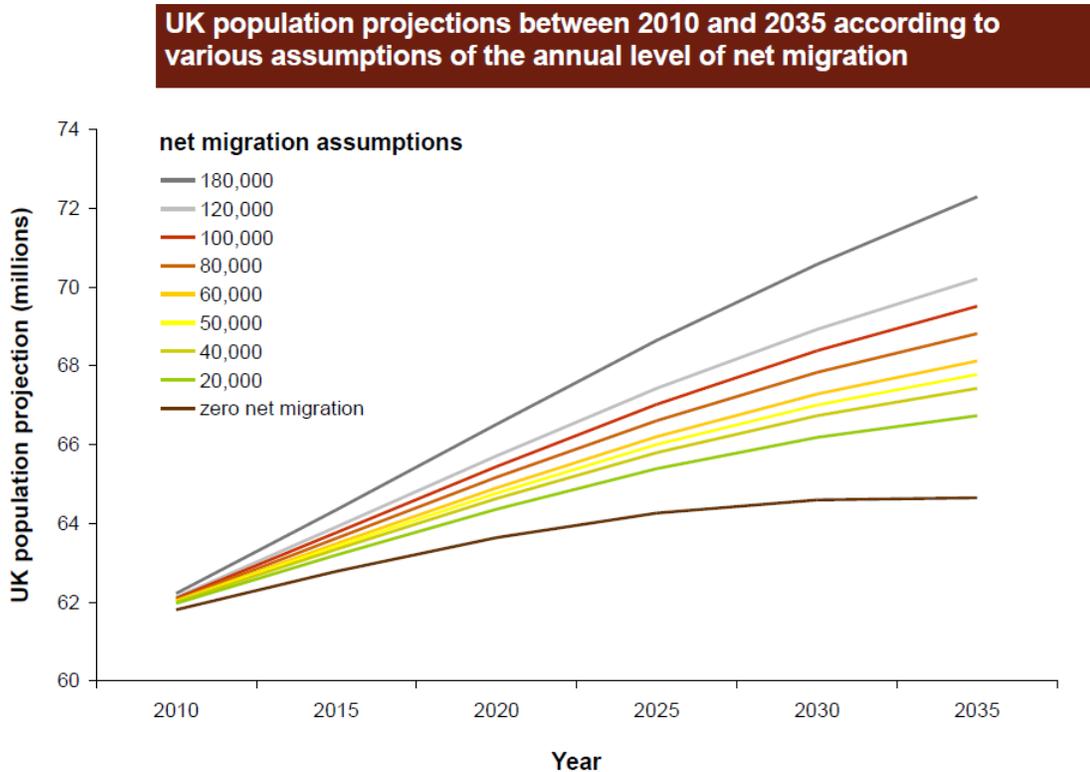
If a quota reduces the number of unskilled workers, this will mean a reduction in the supply of labour. Simple market economics will tell us that if there is a fall in supply, without an equivalent fall in demand, then wage rate will increase and there will be a fall in employment. 'Lower levels of net migration will, all else equal, reduce the growth rate of the potential labour supply and therefore the rate of growth of overall GDP.'⁵ It could also result in illegal trafficking of people into the country. If this happens, these people will not be holding citizenship and therefore will not be able to work legally and not paying taxes on their income if they have one. This would result in a fall in GDP and a possible increase in crime.

If there was a stricter limit on the number of dependants such as children and spouses allowed to join people already living in the UK, this could cause massive controversy. In addition, this may impact the UK's ability to recruit highly skilled workers or academics as they would be unable to bring their loved ones or dependants with them to the UK. Consequently, they may consider relocating to somewhere they would be able to or not immigrating at all. It is unlikely that it would affect GDP if these were decreased as there are already guidelines in place to stop these people becoming a burden to the government as the sponsor of them must be able to show ability to support them by the way of a minimum income threshold. 'The minimum income threshold for sponsoring spouses/partners and dependants in order to ensure that the sponsor can support his/her spouse or civil or other partner and any dependants independently without them becoming a burden on the State'.⁶

⁵ Migration Advisory Committee (2012) Page 33

⁶ Migration Advisory Committee (2012) Page 15

However it is also very important to look at the impacts of not having a quota, or having a very high one. The graph below shows the projected population growth based on different levels on migration to the UK.



Source: Migration Advisory Committee (2010) Page 75

As demonstrated in this graph, even if net migration were to be significantly lower than it currently is at 180,000, then the population would still reach 70 million within around 15 years. There are many social impacts that should be considered with reference to an increasing population. If there are more people in a country, they will clearly put more strain on the services of that country, such as healthcare, education and other public goods. They will also contribute to congestion, especially as studies have shown many migrants will be located in and around large cities which already suffer from congestion problems. There may also be an impact on crime rates and on the housing market as the demand for properties will increase if population increases.

If the quota for students is increased, it is assumed that the entry requirements would be reduced or the visa application may be less strict. This may result in more people claiming to be students to easily obtain a visa, coming into the country to work in unskilled jobs, clearly undesirable. However if there are more students allowed into the country, this will increase GDP through an increase in exports. GDP will further increase through the domestic consumption of goods and services as already mentioned.

Skilled workers raise the GDP of the country by bringing in extra revenue, paying extra taxes and consuming many goods and services. At present, there is a minimum salary in place before a worker is allowed to take up a job within the UK, unless that job is deemed to be an occupation with a shortage of workers. This minimum salary is above the national average salary and set to be increased to £35000 in coming years,⁷ this means they will raise GDP per capita. Looked at very simply, one could conclude that skilled migration should be increased indefinitely so long as the incoming migrant has a salary above a certain threshold, until marginal wage is equal to average wage. However, an increase in GDP is not an indicator of the overall living standards of that country and the total size of an economy is not an index of prosperity. GDP per capita, as already mentioned, will increase because the migrant will have to have a high income, it will not necessarily change the average income for the population already there. Previous studies show that 'gross domestic product will increase, but this increase will accrue largely to immigrants in the form of wages'.⁸ However as already noted there are social costs to infinitely increasing a population, so this rests on the assumption that the benefits of the increased GDP will more than cover the costs.

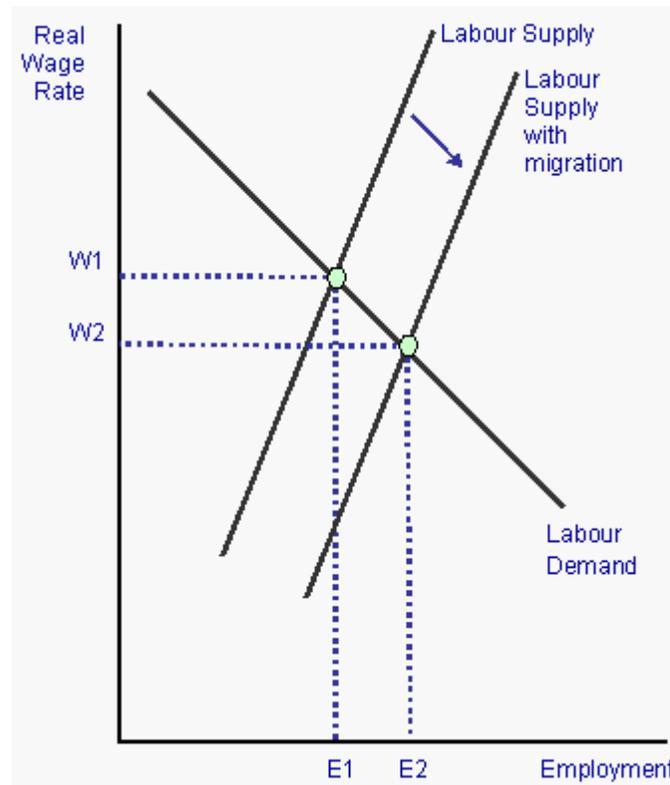
It is assumed that if the population increases, this will automatically increase unemployment as these people will have no jobs to fulfil. This is the lump of labour fallacy; the aggregate number of jobs is not fixed, therefore if the population increases this will increase aggregate demand thus increasing the number of jobs in the economy. However, 'the annual volume of immigration is inversely related to the average wages of unskilled workers'.⁹ The graph below

⁷ BBC News (2012)

⁸ Roodenburg et al Page 7

⁹ Hix, S. And Noury, A. Page 184-185

demonstrates this, if the supply of labour increases without an equivalent increase in demand, wage rate will decrease from W_1 to W_2 . This is the market wage rate for anyone in the unskilled jobs market, and not just the wage rate for immigrant workers; which will mean UK workers would be displaced.



Source: Tutor2u

To look at the effects of allowing an increase in the number of dependants or family members allowed into the UK would firstly depend on whether they would become a burden on the state. As already discussed, the rules at the moment say that the sponsor must show the ability to look after them. Providing this remains the case, these migrants should not affect the GDP of the country through an increase in transfer payments. However it is the case that, like with any increase in the population, there will be an increased strain on public services. There would also be an increase in aggregate demand as they will consume things. It may also be the case that these dependants could become workers themselves, leading to an increase in the labour supply, and as already seen, that could lower the wage rate.

Due to the length and brevity of this essay, it solely focuses on the impacts of immigration and simply to receiving country, only one aspect of the vast topic of migration. There are also many impacts on sending countries such as brain drains, etc, and many interesting debates on the impact on UK workers and wage rates and displacement of those workers with contrasting conclusions from different studies. However, it is clear to see, that immigration is desirable, however only if controlled in the correct ways. The aging demographics of most European countries means that in the years to come these countries will need more migrants who will raise the GDP of these countries if controlled properly. However they will bring many other benefits besides just increases in revenue; one only has to walk around a university campus or city centre to see many foreign people. They bring different ways of thinking about life and education which are very important.

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