



## The Economics of Large Scale Immigration - July 2014

### Summary

1. The economic case for large scale immigration to the UK has faded quite remarkably as it has come under examination in recent years. The solid evidence suggests very little, if any, overall benefit.

### GDP per head

2. This is the best broad estimate of the economic impact so the report of the House of Lords Economic Committee<sup>1</sup> in April 2008 was a watershed. They concluded, evidently to their surprise, that:

*"We have found no evidence for the argument, made by the government, business and many others, that net immigration – immigration minus emigration – generates significant economic benefits for the existing UK population".*

3. The committee included two former Chancellors of the Exchequer, a former Governor of the Bank of England, an eminent labour market economist, and the recent head of the Financial Services Authority.

4. Their conclusion was confirmed by the government's own Migration Advisory Committee in January 2012. They went further. They said that even GDP per head exaggerated the benefit of immigration because<sup>2</sup> :

*"It is the immigrants themselves rather than the extant residents who are the main gainers".*

5. They suggested that the GDP of residents should be the main focus but did not feel qualified to define a resident. At the same time they recognised that the resident population would gain via "any dynamic effects" of skilled immigration on productivity and innovation – "these exist and may be large, but they are elusive to measure". These dynamic effects only apply to skilled migration and not to unskilled migration. We would add, however, that they do not amount to an argument for massive levels of immigration.

6. The Office for Budget Responsibility<sup>3</sup> (OBR) calculated in 2012 that net immigration of 250,000 per year would add 0.5% to GDP. However, immigration on this scale would also add 0.4% to the population so the benefit would be of the order of 0.1% of GDP per head. It would also add 25 million to our population, bringing it to 88 million in 2060.

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1 House of Lords Select Committee on Economic Affairs, 1<sup>st</sup> Report of Session 2007-08, The Economic Impact of Immigration, Volume I: Report, April 2008, URL: <http://www.publications.parliament.uk/pa/ld200708/ldselect/ldconaf/82/82.pdf>

2 Migration Advisory Committee, Analysis of the Impacts of Migration, January 2012, URL: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/01-analysis-report/analysis-of-the-impacts?view=Binary>

3 Office for Budget Responsibility, 2012 Fiscal Sustainability Report, Supplementary Tables, URL: <http://budgetresponsibility.independent.gov.uk/wordpress/docs/FSR-2012-Supplementary-Tables.xls>

7. This accords with the conclusion of the House of Lords Committee<sup>4</sup> who reported (para.66):

*"The overall conclusion from existing evidence is that immigration has very small impacts of GDP per capita, whether these impacts are positive or negative. This conclusion is in line with findings of studies of the economic impact of immigration in other countries, including the US".*

8. Studies in Australia<sup>5</sup>, Canada<sup>6</sup> and Holland<sup>7</sup> have all come to similar conclusions – namely that the benefit is of the order of 0.1% of GDP per head.

9. A study by the National Institute for Economic and Social Research<sup>8</sup> (NIESR) found that the long-run impact of migration from Eastern Europe between 2004 and 2009 could depress UK GDP per head by -0.17%.

A further study by the NIESR<sup>9</sup> carried out a dynamic modelling of two different UK immigration scenarios up until 2060 and concluded that the higher migration scenario would have a more positive impact on GDP and GDP per head than the lower migration scenario. However, the paper does not actually state what the impact would be in either case, merely the difference between the two scenarios. The paper also notes that its higher migration scenario would increase the population by 31% and concedes that its analysis does not capture either negative impacts of congestion or potential social impacts.

### **Budgetary Impact**

10. The House of Lords<sup>10</sup> committee looked at this also and reported (para.132) that:

*"Determining whether immigrants make a positive or negative fiscal contribution is highly dependant on what costs and benefits are included in the calculations. Government claims that the exchequer consistently benefits from immigration rely on the children of one UK born parent and one immigrant parent being attributed to the UK born population – a questionable approach. But even using the government's preferred method, the fiscal impact is small compared to GDP and cannot be used to justify large scale immigration".*

11. That conclusion has not been seriously challenged. Indeed, the Organisation for Economic Co-Operation and Development<sup>11</sup> (OECD) recently echoed this conclusion, stating:

*"Depending on the assumptions made and the methodology used, estimates of the fiscal impact of immigration vary, although in most countries it tends to be small in terms of GDP and is around zero on average across OECD countries."*

12. For the UK specifically, the OECD found that – even excluding the future cost of pensions - immigrant households

4 House of Lords Select Committee on Economic Affairs, 1<sup>st</sup> Report of Session 2007-08, The Economic Impact of Immigration, Column I: Report, 2008, URL: <http://www.publications.parliament.uk/pa/ld200708/ldselect/ldeconaf/82/82.pdf>

5 Productivity Commission of the Australian Government, Annual Report 2010-11, October 2011, URL: [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0016/113407/annual-report-2010-11.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0016/113407/annual-report-2010-11.pdf)

6 Institute for Research on Public Policy, Making it in Canada: Immigration Outcomes and Policies, IRPP Study No 29, April 2012, URL: [http://www.irpp.org/pubs/IRPPstudy/IRPP\\_Study\\_no29.pdf](http://www.irpp.org/pubs/IRPPstudy/IRPP_Study_no29.pdf)

7 CPB Netherlands Bureau for Economic Policy Analysis, Immigration and the Dutch Economy, CPB Special Publication 47, 2003, URL: <http://www.cpb.nl/en/publication/immigration-and-dutch-economy>

8 NIESR, Labour Mobility within the EU – The impact of enlargement and the functioning of the transitional arrangements, NIESR Discussion Paper No. 379, April 2011, URL: [http://www.niesr.ac.uk/pdf/270411\\_143310.pdf](http://www.niesr.ac.uk/pdf/270411_143310.pdf)

9 Lisenkova et al. The Long-term impacts of reducing migration: The case of the UK migration policy, NIESR discussion paper No 420, December 2013.

10 House of Lords Select Committee on Economic Affairs, The Economic Impact of Immigration, 1<sup>st</sup> Report of Session 2007-08, Volume I: Report, April 2008, URL: <http://www.publications.parliament.uk/pa/ld200708/ldselect/ldeconaf/82/82.pdf>

11 Organisation for Economic Co-Operation, International Migration Outlook 2013, URL: [http://dx.doi.org/10.1787/migr\\_outlook-2013-en](http://dx.doi.org/10.1787/migr_outlook-2013-en)

on average paid *less* in tax and received *more* in benefits than UK-born households.

13. The most extensive academic study of the UK by Christian Dustmann and Tommaso Frattini at the Centre for Research and Analysis of Migration at UCL<sup>12</sup> found that between 1995 and 2011 migrants were a clear fiscal cost, to the UK, with a negative contribution in every year, amounting to £95 billion in total. (This amounts to £15 million per day) The positive contribution they reported of £22 billion between 2001 and 2011 was a result of selecting only EEA migrants who had arrived after 2000, and this sum came nowhere near to balancing out the fiscal cost of other groups even during that period.

14. A Migration Watch UK assessment of this paper considered that Dustmann and Frattini had made some very questionable assumptions that had led them to underestimate the costs considerably, with the overall cost likely to be closer to £148 billion and with no clearly positive contribution from any of their sub-groups.<sup>13</sup>

15. Dustmann and Frattini's findings have also been queried by Professor Rowthorn, Emeritus Professor of Economics at Cambridge University, who suggested that they had overestimated migrant earnings and took no account of increased competition for jobs and the resultant fiscal impact. Rowthorn concludes that the recent EEA migrant sub-group have not 'generated such a large fiscal surplus as D&F claim, but neither have they been a significant drain on the exchequer.'<sup>14</sup>

16. The OBR in their 2014 Fiscal Sustainability Report gave a set of projections of varying levels of immigration, and drew the conclusion that, because the age structure of inward migrants to the UK is skewed towards those of working-age, net migration reduces the dependency ratio over a 50-year horizon and thus reduces age-related pressures on the public finances. High net migration of 225,000 rather than their central case of 105,000 would reduce the Public Service Net Debt (PSND) ratio from 83% of GDP to 41% but it would also increase the population of the UK by 20 million to nearly 85million fifty years hence. However, they note "It is important to emphasise that just because we find that higher net inward migration is likely to improve the long-term fiscal position, that does not mean that we are recommending that the Government aims for more inward migration rather than less – this judgement lies outside our remit and for those that have to make it there are clearly other factors to consider beyond the impact of migration on the public finances via the age structure of the population".

## **Jobs**

17. When the issue of employment is raised, the immigration lobby refer immediately to the "lump of labour" fallacy – the false belief that the number of jobs in an economy is fixed. This is not, of course, the case, but it is equally uncontroversial that a large and/or sudden increase in migration can provide a labour market 'shock' with an impact on employment.

18. In their report of January 2012, the Migration Advisory Committee<sup>15</sup> concluded that one hundred additional non EU immigrants might be associated with a reduction in the employment of 23 native workers (para 4.31). This effect faded over five years and did not apply to EU workers.

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12 Centre for Research and Analysis of Migration, The Fiscal Effects of Immigration, CDP No 22/13, November 2013, URL: [http://www.cream-migration.org/publ\\_uploads/CDP\\_22\\_13.pdf](http://www.cream-migration.org/publ_uploads/CDP_22_13.pdf)

13 Migration Watch UK, As Assessment of the Fiscal Effects of Immigration to the UK, March 2014, URL: [http://www.migrationwatchuk.co.uk/pdfs/BP1\\_37.pdf](http://www.migrationwatchuk.co.uk/pdfs/BP1_37.pdf)

14 Robert Rowthorn, A Note on Dustmann and Frattini's Estimates of the Fiscal Impact of UK Migration, Civitas Paper, April 2014, URL: <http://www.civitas.org.uk/pdf/rowthorndustmannfrattini.pdf>

15 Migration Advisory Committee, Analysis of the Impacts of Migration, January 2012, URL: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/01-analysis-report/analysis-of-the-impacts?view=Binary>

19. The Labour Force Survey is also of interest. It shows that, since 2000, employment of non-UK born workers aged 16 and over has increased by 2.4 million to 4.5 million. Yet in this same period, employment of UK born workers increased by only 670,000.<sup>16</sup> These figures suggest that British workers were not drawn into the labour force during the boom years.

20. While there are suggestions that British born workers have been catching up during 2013, a very large part of their increase in employment levels has resulted from increases in self-employment, and it is not at all clear whether these are jobs that will allow people to maintain themselves and their families.

21. There is also extensive anecdotal evidence of British workers being displaced, notably by workers from Eastern Europe. Some economists argue that this is a temporary phenomenon and that the market will sort itself out over a period of years. Whether or not that is true, it is meanwhile highly disruptive for the British workers concerned.

## **Wages**

22. The Migration Advisory Committee<sup>17</sup>, after reviewing previous studies, reported in January 2012 (para 4.39) that migrants had little or no impact on *average* wages. However, migrants were found to increase wages at the top of the UK wage distribution and to lower wages at the bottom. It is worth noting that these studies largely looked at periods before the recession and before the upsurge in immigration from 2004 onwards.

## **Labour shortages**

23. In their evidence to the House of Lords EU Committee the Migration Observatory<sup>18</sup> noted that the existence and size of shortages is critically dependent on the price of labour. The existence of a shortage does not automatically make the case for more labour immigration as there may be alternative policy responses such as increasing wages and/or improving working conditions, changing the production process, relocating to countries where labour costs are lower, or switching to less labour intensive commodities or services. They further noted that, if they already had access to cheap migrant labour, employers might not consider the alternatives to immigration as a way of reducing staff shortages. This might be in the short term interest of employers but perhaps not in the best interest of the sector or the national economy. "There is clearly the danger that the recruitment of migrants to fill perceived labour and skills needs in the short run exacerbates shortages and thus entrenches certain low cost and migrant intensive production systems in the long run."

17<sup>th</sup> July 2014

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16 Labour Force Survey, Employment Levels and Rates by Country of Birth and Nationality, Table EMP06, Last updated June 2014, URL: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/june-2014/table-emp06.xls>

17 Migration Advisory Committee, Analysis of the Impacts of Migration, January 2012, URL: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/01-analysis-report/analysis-of-the-impacts?view=Binary>

18 Migration Observatory, Response to Call for Evidence (House of Lords EU Home Affairs Sub-Committee Inquiry into the European Commission's Communication on a 'Global Approach to Migration and Mobility'), 25<sup>th</sup> July 2012, URL: <http://migrationobservatory.ox.ac.uk/migration-observatory-response-call-evidence>