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## THE IMPACT OF IMMIGRATION ON GDP PER HEAD

### Summary

1. Most immigrants add to production but, in the long term, the host population will only benefit if there is a resultant increase in GDP per head. Three recent studies - addressing the past, present and future have all suggested that any such impact is minimal. [1] Indeed, the main benefit accrues to the immigrants who are able to send home about 10 million a day. This picture broadly conforms with the results of major studies undertaken in the US, Canada and Holland.

### Introduction

2. In the short term any benefit to the host population will depend on the distribution of income. For example, if immigrants pay more in tax than they receive in benefits, the host population will be better off. A number of attempts have been made to measure this fiscal effect. The government's first effort which showed a net benefit of 2.5bn was based on a year in which the budget was in surplus so everybody was making a positive fiscal contribution. This study was superseded by an IPPR study which also showed a positive contribution. However the result was distorted by the inclusion of all children of mixed households (one parent an immigrant, the other not) in the host community. Correcting for this by splitting the cost of these children 50/50 produced a small negative outcome [2].

### The National Institute Report

3. In October 2006, the National Institute Economic Review No 198 contained a commentary on immigration and its effects. This examined the impact of immigration between 1998 and 2005. It concluded that immigrants who have arrived since 1998 have raised GDP by 3.1%. According to the Labour Force Survey figures in the report, of the 58.987m population, 2.249m have come to the UK in the 8 years since 1997. The crude addition to the population (excluding UK-born children) is therefore 3.8%. So the benefit is negative in terms of GDP per head. [3]

4. The report also claimed that in calendar 2004 and 2005, taken together, immigration contributed nearly 1% to the overall growth of 5.3% in this period. This claim was based on 815,000 migrants arriving in 2004 and 2005. They therefore added 1.4% to the population and 0.9% to earnings GDP. If earnings are taken as a proxy for overall GDP, as is the governments practice, the addition to GDP would be 1.3% so the impact on GDP per head would be slightly negative. [4]

### The Government calculation

4. In a recent parliamentary debate, a Home Office Minister gave an official estimate that "migration has increased output by at least 4 billion and (accounts for) 10-15% of economic trend growth" [5].

5. Again, the Government have failed to take into account the addition to population. In 2005 net immigration was 185,000 which, on a population of 60 million is 0.31%. At the same time the governments estimate of 4 billion on a GDP of approximately 1250 billion is 0.32%. Again, the benefit in terms of GDP per head is minimal about 0.01% of GDP or just 4p per head per week. [6]

6. As regards the claim that immigration accounts for 10-15% of trend growth, the result is the same. Trend growth is 2.5%. Even 15% of that growth is 0.375%. Thus, on both measures quoted, the benefit per head is close to zero or negative.

### **The Item Club Report**

7. In April 2006 the Item Club Spring forecast made an estimate of the impact of East European immigration on the economy. The report assumed that 300,000 East European workers would arrive in the next three years adding 1% to the UK labour force. It remarked on their wide dispersal around the country and across a range of industries. The largest number are in administration, business and management which "certainly contradicts, the impression that workers come to the UK to take up low-skilled occupations. (In fact the Workers Registration Scheme shows that 80% of employed East Europeans are earning less than 6 and 95% are earning less than 8 an hour).

8. According to the report, feeding these workforce numbers into the Treasury model indicates that, in the short run, "unemployment rises and capital intensity and labour productivity fall". The most striking feature on the simulation is "the downward pressure the new workers exert on real wages which helps keep interest rates lower than would otherwise be the case. In terms of GDP, the outcome is that it takes six years before the addition reaches 0.8%. However, this prediction was based on the assumption that East European workers would earn, on average, the same as the host population. In fact, their earnings per head are just over half the UK average [7], so their contribution to GDP is more likely to be in the region of 0.4% to 0.5%.

9. An extra 300,000 people adds 0.5% to the population. This excludes accompanying dependants who add at least 17% to the migrant population [8]. UK-born dependants and dependants who later join migrants already established in the UK are additional to this. The total addition to the population is therefore likely to be in the region of 0.6% to 0.7% of the population and the impact of A8 migration on the UKs GDP per head will be significantly negative.

### **International Experience**

10. In the United States a study by the National Research Council in 1997 found that immigration added about 1/10th of 1% of GDP per head per year. In the period studied, immigration to the US was comparable to that now taking place in the UK.

11. In Canada the Economic Council of Canada reported in 1991 that "with respect to per capita disposable incomes an increase in immigration has a positive effect, but it is very small".

12. In Holland, a 2003 study by the Netherlands Bureau for Economic Policy Analysis, part of the Ministry of Economic Affairs, produced a wide ranging study of the impact of immigration on the economy. It concluded that "the overall net gain in income of residents is likely to be small and may even be negative".

**Conclusion**

13. All three methods recently employed in the UK are approximate but they all point in the same direction - namely, that the benefit of large scale immigration in terms of GDP per head is minimal. Indeed, all major overseas studies of large-scale immigration involving mixed levels of skills, such as we have in the UK, find that its net effect is very small in comparison to GDP.

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## NOTES

- [1] Hansard 10 Nov 2004 Col 826
- [2] See Briefing Paper 1.10 on [www.migrationwatchuk.org](http://www.migrationwatchuk.org)
- [3] However, the 3.1% is just the earnings contribution to GDP. The government normally use this as a proxy for their contribution to GDP as a whole. On this basis the contribution to GDP would be 4.5%. On the other hand, UK-born children should have been included with the immigrant community. When these two factors are taken into account the overall impact on GDP is likely to be neutral.
- [4] The author of the NIER article has commented as follows: "GDP per head is the usual basis for comparison but net national income per head is a much better indicator. The best example of the distortion associated with the former is provided by Southern Ireland. This has very high GDP per head but i) high net payments of income to foreigners and ii) high depreciation rates because it has high-technology industries. On a net income per head it is about 6% points below the United Kingdom.

Even on a net income per head it is likely that immigration has had a depressing effect, and this is because the immigrants earn their wages but are assumed not to bring any extra capital. For each extra pair of hands income rises less than in proportion because there is no extra capital. But the appropriate question is i) what happens to immigrants living conditions- presumably these rise as a result of immigration and ii) what happens to the rest of the population; for them there is an increase only if resources are transferred from the immigrants. This may happen through the tax system. Finally there are effects arising from changes in wage rates. These are probably small overall but important for the people affected by them."

- [5] Hansard - 18 October 2006, column 288 WH
- [6] GDP divided by 60m gives about £21,000 GDP per head. 1% of this is ££210, 0.01% is £2.10 p.a. = 4p per week
- [7] See Migration Watch briefing paper 1.12
- [8] See MWUK briefing paper 1.12