



THE FISCAL IMPACT OF IMMIGRATION TO THE UK

Summary

1. The careful qualifications in the original research paper have been omitted. The year chosen was one of public sector surplus which exaggerated the effect. The cost of the extra infrastructure needed for this addition to our population has been ignored. For example, the impact on England's housing could amount to an extra requirement of about one million houses over 25 years. A much more significant measure is the impact on Gross Domestic Product (GDP) per head. The Economist magazine estimated this at 1/8% per head per year. A major American study put the annual contribution of broadly similar levels of immigration to GDP at 1/10 of 1% but made no allowance for the costs of congestion.

Introduction

2. Limited immigration has long been of mutual benefit but the very large-scale immigration now in train is an entirely different matter. The government's case rests heavily on an oft repeated claim that immigrants contribute a net £2.5 billion to the exchequer. This paper examines that claim.

The missing qualifications

3. The claim is taken from a Home Office research paper entitled "The Migrant Population in the UK: Fiscal effects" issued in 2002 as Research Development Statistics (RDS) occasional paper number 77. In launching the paper, Barbara Roche, then Minister for Immigration, said "Last September I called for an honest and open debate about the positive contribution (sic) migration could play in the economic and social life of the country." Civil servants appear to have obliged. The claim appears in paragraph one of the Executive Summary although it is described as an estimate derived from "a tentative original analysis ..."

4. The body of the paper is even more cautious. It notes (page 3) that "empirical estimates of the fiscal effect are difficult to obtain ..." It continues (page 4) that they are

"not only conditional on the period in which they are calculated ... but also on the country's position in the business cycle." It goes on "these sensitivities are apparent in the inconsistency between the existing empirical results. These are generally ambiguous, and in some cases contradictory". It mentions several studies in the US and Germany which have found the overall fiscal effect to be negative. When the paper returns to the point again (page 11) it notes that "the tentative nature of this estimate must again be emphasised, as well as the fact that the aggregate figures mask variation in outcomes across different migrant groups".

5. On the next page it becomes a little more confident "although the results provide only a rudimentary estimate of the magnitude of the effect, we can be fairly confident that the direction of this effect is positive.....although the figure itself needs to be treated with caution."

Public sector surplus

6. The paper recognizes that it chose a year in which there was a surplus in the public sector accounts (page 11). Migrants made a net contribution of 10% but the UK born contributed a net 5% - so the differential is about half what it appears to be.

The extra cost of infrastructure

7 An examination of the technical appendix shows that there is a serious flaw in the analysis. Migrants' share of expenditure on health services has been calculated with reference to per capita levels of health care consumption by age for the UK population as a whole (page 29). This analysis assumes that per capita costs are similar for migrants and UK born residents in each age group. Similarly, migrant's share of education has been calculated by reference to their share of the total population in the relevant age groups. What the paper overlooks, therefore, is that since the early 1990s, immigrants have been adding to our total population. Total net immigration is now running at 150 - 170,000 per year. It follows that substantial additional infrastructure will be necessary in terms of health and education which has not been allowed for in this calculation.¹

8. As regards housing, which has been calculated in a similar manner, the paper recognises that migrants tend to live disproportionately in the South East (in fact seventy five per cent settle there) so their share of housing benefit may be higher per head than that of the UK born population². The paper makes no allowance for the additional housing and infrastructure that will be necessary for new immigrants. A separate Migrationwatch paper "The impact of immigration of England's housing" estimates that, if net immigration continues at a level of about 170,000 a year, an extra 1.1 million houses will be required by 2021 just to accommodate immigrants - over and above the present Prescott plans.

9. There will also be significant extra costs in the transport, water and other

environmental fields. A recent paper by the No 10 Strategy Unit stated that the inflow of overseas migrants to London had doubled in a decade to over 200,000 a year. The outflow of people to the rest of the UK had risen to 230,000 a year. As a result, they predicted that the number of commuters to London would grow by 10 – 20% by 2010.³

The diversity of immigration

10. The Home Office paper's technical annex states that migrants have been defined as "foreign born population and UK born dependent children ..." It continues "under this assumption migrant's account for 8.4 per cent of the UK population". This is a category of about five million people. Their total fiscal contribution lumps together different types of immigrant. Some, such as bankers, make a large positive contribution to the exchequer. At the other extreme, unskilled workers with families cost the government more than they pay in taxes. Even if the Home Office estimate were correct (which is unlikely) it does not tell us what the net fiscal contribution of future immigrants will be. That will depend on what type of immigrants we get in the future.

Impact on nationals

11. Immigrants may take jobs that would otherwise go to native workers, or else competition from immigrants may push down the wages of some native workers, especially the unskilled. In such cases nationals will pay less tax and receive more benefits. Thus the net fiscal contribution of nationals will fall as a result of immigration. This loss must be offset against any gain arising from the taxes paid by immigrants.⁴

12. There is also evidence that foreign immigration into the South of the UK deters migration by nationals from the North, Wales and Scotland into the South.⁵ As a result, people living in the periphery of the UK who would have got jobs in the South remain unemployed at home. Thus foreign immigration to the South (the destination of 75% of international migrants) leads indirectly to unemployment (or low wages) in the North, Scotland and Wales. Indeed, Britain's top labour economist, Professor Richard Layard of LSE, wrote in a letter to the Financial Times (30 May 2002):

“There is a huge amount of evidence that any increase in the number of unskilled workers lowers unskilled wages and increases the unskilled unemployment rate. If we are concerned about fairness, we ought not to ignore these facts. Employers gain from unskilled immigration. But the unskilled do not.”

Agestructure

13. The fiscal effect of immigration should be considered over the life cycle of immigrants. At present their age structure is significantly lower than that of the population as a whole. This reduces the cost of their pensions for the time being but they will have to be paid for eventually.

Emigration

14. Any calculation of the overall effect of migration on the UK exchequer must take into account the fiscal loss caused by emigration of highly paid British workers. The paper ignores this entirely.

Overall economic benefit

15. The claimed benefit of £2.5 bn has to be seen against the total of government expenditure which is about £400 bn per year.

16. No mention is made of personal remittances; Britain had a deficit of £3 .4 bn in 2001. Much of this was money sent home by immigrants.

17. The fiscal impact is not the only measure of the effect of immigration, nor is it the best. The overall impact is reflected in the effect on Gross Domestic Product (GDP). The Economist magazine (27 June 02) assessed this as follows:

"The benefits immigration produces ... are unlikely to be very large. The increase in GDP per head will be smaller than in overall GDP..."

"Most economists agree that there will be modest gains. 'On the whole the economic impact of immigration is broadly neutral to mildly positive,' says John Salt⁶ of the migration research unit at University College London. 'The net gains are very modest,' says Richard Freeman, co-director of the LSE's Centre for Economic Performance and a member of the National Research Council (NRC) panel that reported in 1997 on the impact of immigration into the United States. The main reason is that Britain is already a very open trading economy whose imports are worth almost thirty per cent of GDP. This tempers the potential impact of immigration since imports, in effect; embody the work of foreigners who stay put.

"The government is right to insist that there are economic benefits to immigration, but they are not huge, or neutral."

18. They are certainly not huge. The NRC paper referred to above was a major study which concluded that “Immigration benefits the US economy overall....and may be adding as much as \$10 bn to the economy every year.” As US GDP is about \$10 trillion, this amounts to approximately 1/10 of 1%. Immigration to the US in 1997 was of the same order of magnitude as current levels of immigration to the UK, making some allowance for illegal immigration in both cases. However, the study made no allowance for the costs of congestion. These are even more important in Britain which is twelve times as crowded as The US. Taking these into account it is unlikely that there is any net benefit to Britain from the large scale immigration now set in train.

5 January 2004

¹ There are also substantial extra costs, in time and money, of interpretation in the NHS and additional English language teaching in education. For example, the spend per pupil in London is 17% higher than in England as a whole.

² Rents for public housing are 30% higher in London than in England as a whole.

³ London Analytical Report issued by the No 10 Strategy Unit, December 2003.

⁴ Dustmann, C. et al (2003) ‘Labour Market Performance of Immigrants in the UK Labour Market.’ Home Office Online Report 05/03 www.homeoffice.gov.uk/rds/pdfs2/rdsolr0503.pdf

⁵ Hatton, T.J and Tanzi, M (2003) ‘Immigration and Inter-Regional Mobility in the UK, 1982-2000, Hatton web site <http://cepr.anu.edu/Staff/hatton/pdf/HatTaniRev.pdf>

⁶ Salt, J, in Chapter 13, ‘The Geographical Impact of Migration in Europe: Lessons for Europe from the New World’ in King, R. (ed) ‘The New Geography of European Migrations’ (London, Belhaven).