



## The fiscal impact of migration to the UK - Where are we now?

### Summary

1. It now seems beyond doubt that migration is a considerable cost to the exchequer. Even on assumptions favourable to migrants, the most recent and extensive academic research found that migration from 1995 to 2011 had cost the taxpayer £96 billion or about £15 million a day. The claim that recent EEA migrants had contributed £22 billion between 2001 and 2011 is fundamentally unsound: other calculations make it closer to zero.

### Previous research

2. The size of any migrant impact on the exchequer is highly controversial and the fact that the origin of taxpayers and benefit claimants is not reported means that estimation very much depends on the assumptions made by researchers.

3. Research has been limited and unsophisticated in comparison to that on the effects of immigration on jobs and wages. The argument turns, of course, on what is paid in direct and indirect taxes by migrants compared to what is spent on them directly plus any increase in general costs caused by migration.

4. There is consensus that the correct broad approach was outlined in a seminal paper for the Home Office by Gott & Johnston in 2002. The authors made it clear that they had produced only tentative and uncertain results while providing clear pointers as to what would be necessary for more certainty.

5. Their work was updated in a 2005 IPPR paper whose authors used the same methodology and made the same caveats.

6. In 2008 Professor Rowthorn of Cambridge University showed the very wide variation in possible results that could result from varying assumptions.

7. In 2010, the Centre for Research and Analysis of Migration (CReAM) at UCL produced a paper limited to the specific impact of EU A8 migration between 2004 and 2008.

8. More recently, in November 2013, CReAM produced a paper on the overall impact of migration from all countries between 1995 and 2011. Despite using the same essential methodology and data sources as the Home Office and IPPR researchers, CReAM claimed for this paper that they were able to provide "precise estimates" for each year since 1995 and that "overall our findings draw a positive picture of immigrant contributions".

9. In fact, their own findings were of an overall fiscal cost of £96 billion. Instead of openly reporting this they relegated it to a table at the back of their paper and put out headlines of a positive contribution from recent EEA migrants of some £22 billion. These headlines were extensively reported, notably by the BBC, and continue to be repeated widely with no mention of the findings of overall cost or of any caveats.

10. Even if their estimate of the contribution of recent EEA migrants were correct, the other side of that coin would be a fiscal cost of some £118bn from all other immigration. However, in relation to recent EEA migrants in particular, they relied on a number of unreasonable and/or extreme assumptions all of which would be distortive in favour of a positive contribution. If these are stripped away, any significant positive contribution disappears. Further, even their own 'positive' figures show a sharply downward trend from 2007 onwards which, if continued, is now likely to make their contribution negative even with the unreasonable and extreme assumptions in their favour.

11. These issues are detailed in an extensive MigrationWatch assessment of the CReAM paper, which concludes that the overall fiscal impact of immigration over 1995 and 2011 was nearer £148m and, further, that there was no significant positive contribution from the recent EEA migrants between 2001 and 2011.

12. The MigrationWatch approach has been broadly endorsed by Professor Rowthorn in a paper published by Civitas and his own conclusion, even using a theoretically more 'generous' approach to general government expenditures, is also that the contribution by the recent EEA migrants is negligible.

13. The key issues identified by MigrationWatch are listed in Annex A. These are points whose impact, taken together, runs into many billions.

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## References

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Rowthorn, R. (2008), "The fiscal impact of immigration on the advanced economies": *Oxford Review of Economic Policy*, Volume 24, Number 3, 2008, 560-580

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## Annex A

- (a) Income levels were not taken into account in calculating means-tested welfare expenditures. This is obviously as erroneous as payments depend on income.
- (b) In allocating personal taxes (income tax and NICS) it was assumed that the distribution of incomes of the UK-born and migrants was the **same** among PAYE employees and those paying tax under self-assessment. Self-assessed income tax derives from both high earners (who earn a lot) and from the self-employed (who earn on average much less). Recent EEA migrants in particular will form a much smaller proportion of the former group and a much higher proportion of the latter.
- (c) Business rates have been attributed entirely to self-employed people. The practical effect is to credit e.g. a self-employed car washer or construction worker with paying over £5,000 a year in Business rates and is clearly wrong.
- (d) Corporate taxes have been allocated to recent migrants on the basis that they have the same beneficial interest in UK companies (directly or through pension funds etc) from the day they arrive as lifelong UK residents.
- (e) Other taxes have been simplistically allocated taking no account of known differences in characteristics between the selected migrant groups and the UK-born population – for example geographical location and housing benefits or inheritance tax.