Immigration and Economics

Immigration and Economics: MW 427

- Despite many misleading claims to the contrary, the research consensus is that ***immigration overall has been and continues to be a significant annual fiscal cost for the UK***. A paper published by the government in 2018 estimated that the immigrant population in the UK added £4.3 billion to the UK's fiscal deficit in 2016/17.
- ***Immigration into lower-skilled work does not benefit the UK's GDP per capita, a key measure of economic performance***. Indeed, growth in GDP per capita effectively stalled over the past decade, despite the fact that during this period net migration into the UK reached an all-time record level (of 342,000 in 2015).
- ***Arguments that immigration UK is vital for the UK economy, in particular that it is bound to enhance productivity, are often exaggerated.*** Productivity has essentially flat-lined in recent years despite the number of immigrant workers growing by more than two million since 2006.

Evidence of a fiscal cost

1. Estimating the impact of immigration on the Exchequer is a complex matter in practice. There are few precise statistics available to the public so results very much depend on the assumptions made by researchers who have to estimate . what is paid in direct and indirect taxes by migrants compared to their direct use of public services and any increase in general government costs caused by migration.

2. Immigrants of course pay taxes – but while some pay more than average, many pay far less. Similarly, some immigrants use a lot of public services and some do not.

3. Looking at the evidence of what has actually happened it now seems beyond doubt that immigration has been and remains a ***considerable cost*** to the Exchequer. The central estimate of economists at University College London's Centre for Research and Analysis of Migration (CReAM) was that, over the period from 1995/6 to 2011/12, the total cost was £114bn. In the final year it reached £15bn or £40m a day (read more here; our comments on the UCL research can be found here). This cost resulted from a lower employment rate of migrants overall, lower wages for some particular groups, and the cost of providing public services and benefits. All factors remain in place to the present.

4. Using similar methodology Migration Watch UK, found that all migrants were a net fiscal cost of at least £13 billion in 2014/15. (For detailed analysis of the fiscal contribution of migrants in 2014/15 see MW381 - The Fiscal Effects of Imigration to the UK 2014/15).

5. Oxford Economics estimated, in a 2018 paper commissioned by the government, that **immigrants overall cost the Exchequer £4.3 billion in the year 2016/17**, (with a net contribution of over £4bn from migrants from the EU 'Original Member States' considerably outweighed by a cost of £9bn for non-EEA migrants - par. 4.11 of September 2018 MAC report). On this evidence, immigration does not generate the tax receipts needed for migrants to 'pay their way', let alone to finance the new infrastructure or anything else required by rapid population growth – more than 80% of which was the result of immigration between 2001 and 2016 (see our paper: MW452 - Impact of immigration on UK population growth).

6. The fiscal impact of migrants depends on two factors - the timescale selected and the origin of the migrants. This is because more recent migrants are often less reliant on services than longer-term residents and people from different country groupings have very different economic profiles. For this reason, assessments of the fiscal impact of migrants tend to be broken down by the following citizenship groups: EU14, EU10, Non-EU; and the following time scales: all migrants regardless of year of arrival, and recent arrivals (those who arrived since 2001). A number of studies have found that non-EU and Eastern European immigration have been a net fiscal cost, while recent migrants from the EU14 represented a fiscal benefit.

Table 1: Estimates of fiscal impact of immigration

Migrant Cohort	**Author**	**Fiscal Impact**	**Time Frame**
All Immigration	OECD	**-£4.3 bn**	Average 2007-2009
	UCL (CReAM)	**-£14.8 bn**	2011/12
	MWUK	**-£13 bn to - £17 bn**	2014/15
Recent Non-EU Immigration	UCL (CReAM)	**-£2.2 bn**	2011/12
	MWUK	**-£3.8 bn**	2014/15
Recent EU14 Immigration	UCL (CReAM)	**£1.4 bn**	2011/12
	MWUK	**£2.8 bn**	2014/15
Recent Eastern European Immigration	UCL (CReAM)	**-£138 m**	2011/12
	MWUK	**-£1.5 bn**	2014/15

7. Oxford Economics also attempted to estimate the 'dynamic' fiscal contribution of the 2016 cohort of migrants over the course of their lifetime. Their report conjectured that *'each additional migrant from the EEA will make a total discounted fiscal contribution of approximately £78,000 over his or her lifetime in 2017 prices. Non-EEA migrants, who had a negative net fiscal contribution in the static analysis, [were] estimated to have a positive lifetime contribution of £28,000 per head'* (Par. 4.20).

8. It is important to note that the calculations behind these estimates 'adjusted' contributions so as to reduce government borrowing to zero over the long term *'under the assumption that the UK's budget is balanced over the long term'*. (Oxford Economics report, p. 30). This is a dubious assumption. For it to be so, the future would have to be very different from the past.

9. Furthermore, as the MAC pointed out, what might appear to be large positive fiscal contributions reduce to insignificance when expressed as the benefit to each member of the existing population. And, indeed, a simple fiscal balance gives no regard to the dis-benefits arising from further overcrowding, increasing waiting lists, congestion etc.

Impact on GDP and GDP per capita

10. The economic impact of migrants can also be assessed in terms of their impact on Gross Domestic Product (GDP). GDP is the total value of goods and services produced in an economy and is a measure of output. Many claims that immigration is good for the economy simply point to the fact that it results in growth in GDP.

11. While a larger population does usually mean higher GDP, this is equivalent to a bigger cake, but the size of the slices do not necessarily increase proportionately, if at all. So ***growing the economy by growing the population does not necessarily do anything beneficial for GDP per capita – which is the key measure of economic performance.***

12. The House of Lords Economic Committee previously *'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'*. It added: *'Immigration has very small impacts on GDP per capita, whether these impacts are positive or negative'*. (To read the 2008 House of Lords report click here).

13. There is also no convincing study related to the UK which demonstrates that immigration into lower-skilled work boosts GDP per capita. As if to reinforce the point, in the last decade growth in GDP per capita effectively stalled despite the UK having witnessed an all-time record level of net migration.

14. Looking at it another way, GDP per capita measured by purchasing power parity was $39,800 in 2017 only slightly above that in 2007 when it was $38,400, despite the arrival of two million workers from overseas.

15. This is likely linked to the fact that 75% of EU migrants who arrived in the were in lower skilled work in 2016 (see our paper: MW391 - A limit on work permits for skilled EU migrants after Brexit), while 64% of non-EU migrants also worked in such jobs (analysis of the LFS 2016 by the MAC, August 2017, p.24).

16. As Professor Robert Rowthorn has noted: ***"If many of the immigrants fail to get jobs, or if they end up in low skill jobs or displace native workers, large-scale immigration will have a negative impact on GDP per capita and on government finances."*** ('The Costs and Benefits of Immigration', December 2015, p.71).

The alleged necessity of high migration for fiscal sustainability

17. The Office for Budget Responsibility (OBR) makes projections annually for the future course of the UK economy based on a range of variables, including different levels of net migration.

18. It has often been claimed that these projections 'prove' that continued high levels of net migration are required both in the short term and over the long term to keep the UK public sector debt to GDP ratio within sustainable limits.

19. However the OBR assume that from the day of first arrival migrants will be paying the same taxes as a lifelong resident of the same age and gender. Thus a 26-year-old migrant is assumed to get a job in the UK on the day of arrival at the same pay level as 26-year-olds already working in the UK, and then progress up the pay and career ladder with each additional year of age at the same pace. As a general proposition this seems highly implausible and does not appear to backed up by any empirical evidence.

20. Further, whilst OBR reports used to show immigration making a material difference to fiscal sustainability in the future, their more recent projections do not, and that the UK debt to GDP ratio will become unsustainable even with high net migration year after year that would see the population rising to near 80 million. Thus the remedy for increasing public sector debt cannot now be claimed to be more immigration.

21. As to more general and long-standing claims that migrants must be needed to pay for pensions in the future, it has been noted that rejuvenating the UK's ageing population through immigration would be an endless treadmill requiring a never-ending and increasing stream of newcomers with the negative consequences of a larger population exceeding the modest economic benefits of any increased level of arrivals (Rowthorn, December 2015).

22. The ONS has noted that *'higher levels of net migration slow population ageing but will not prevent it'*. They add that the UK's old age dependency ratio (the number of people of state pension age per 1,000 people of working age) is projected to increase ***regardless of future net migration levels***.

Productivity

23. The reasons for productivity levels in the UK having fallen so much behind the upward trend they exhibited before the recession (as well as underperforming in comparison with a number of other countries) is unclear.

24. This is often referred to as the 'productivity puzzle'. Factors which have been cited as critical include weak business investment, failures in training by government and business and substandard infrastructure. However, large inflows of workers from abroad into low-paid jobs do not appear to have helped.

25. Research on the impact worldwide of immigration on productivity (for instance by Jaumotte et al, 2016; Boubtane and Dumont 2014; Ottaviano et al, 2018) provides some support for the argument that controlled immigration of relatively small numbers of workers into highly-skilled jobs may be productivity enhancing (for more, read our paper on immigration and productivity, May 2019).

26. But this is no argument for uncontrolled immigration by anyone who wants to try their luck in the UK. Indeed, the chairman of the Migration Advisory Committee Professor Alan Manning told the Home Affairs Select Committee in October 2018: ***"Lower-skilled migrants make the UK a slightly lower-wage, lower productivity economy and do not help innovation."***

27. This point is reinforced by the fact that, despite the migrant share of the workforce nearly doubling since 2006, productivity has flat-lined. Accordingly, **reducing the level of immigration into lower-skilled work may help to boost productivity.**

28. As the chairman of the Office for Budget Responsibility noted in evidence to Parliament in March 2018: *"There is a possibility [more restricted migration arrangements] could be a trigger to greater productivity. If labour is more expensive or particular categories of labour are harder to get hold of, that could encourage firms to innovate in ways that increase their underlying productivity. That could have longer-lasting positive effects."*

29. There is little to suggest any benefit in the long-term merely from growth driven by increasing population, certainly compared to the costs of over-crowding and pressure on public services that resulting from large increases in population. The OBR are clear that their economic modelling and forecasts take no account of the large negative effects of a rapidly expanding population.

Summary

30. ***There is no convincing economic case for mass immigration on the present scale***. While a small amount of immigration into high-skilled work may be beneficial to UK GDP per capita and productivity, most migrants (about 70%) were working in low and medium-skilled roles in 2016 – MAC, August 2017, p.11. This helps to explain why immigration has been and continues to be a significant fiscal cost for the UK. And over and above this, one must also take into account the other negative impacts and loss of amenity that can result from an excessively expanding population.