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## THE IMPACT OF IMMIGRATION ON GDP PER HEAD

### Introductory Note

1. Since this paper was first published in January 2007 it has been brought to our attention that:

a) The Home Office Minister was confusing two issues in the same sentence [i]. The estimate of a 4 billion contribution by immigrants to GDP was intended to refer to the contribution of migrants from the 8 central and east European countries (A8 migrants) since their accession to the EU in May 2004. The reference to economic trend growth applies, of course, to the contribution of all migrants in one year.

b) The data recorded in the Accession Monitoring report concerning dependants of migrant workers was incorrect [ii]. We have therefore revised the calculation using National Institute Economic Review data on dependants which is more reliable.

2. The paper below has been amended to take account of these points but they do not affect the thrust of the conclusions at paragraph 20.

3. The original version of the paper can be found by accessing the Archive item number 1.15.

### Summary

4. 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. Indeed, the main benefit accrues to the immigrants who are able to send home about 10 million a day [iii]. This picture broadly conforms with the results of major studies undertaken in the US, Canada and Holland.

### Introduction

5. 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 This study was superseded by an IPPR study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 [iv]

### **The National Institute Report**

6. 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 [v].

7. 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 [vi].

### **The Government calculation**

8 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"[vii] It transpires that this was a reference to A8 migration since their accession to the EU in May 2004. The 4 billion calculation was based on earnings data from the Labour Force Survey.

9 The National Institute report discussed above also contains data from the Labour Force Survey and this supports the 4 billion claim. The government normally use the wage earnings as an indicator of the contribution to GDP as a whole (see paragraphs 6 and 7 and endnotes 4 and 5.) The NIER shows the following earnings data for the first quarter of 2006:

	Population overall		2004-5 A8 migrants	
	Average weekly earnings	Number of working age employed people	Average weekly earnings	Number of working age employed people
Professionals and managerial	582	11,600,00	317	15,000
Intermediate occupations	266	10,557,000	224	39,000
Process plant and machine operatives and elementary occupations	252	5,174,000	238	88,000

10 The total earnings for the working age population as a whole and the A8 migrants are therefore 10.863 billion and 34.435 million per week respectively. If earnings are a proxy for GDP A8 migrants would therefore contribute 0.32% of GDP.

11 GDP in Q1 2006 was 314 billion so the A8 migrants annual contribution to GDP would be  $4 \times 314 \text{ billion} \times 0.32\% = 4.02 \text{ billion}$  supporting the Treasury figure.

12 The same NIER data shows that the total population of A8 migrants who had arrived in 2004-5 was 200,000. They therefore add 0.33% to the population and their contribution to GDP per head is slightly negative on this measure.

13 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**

14 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).

15 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 [viii], the same as the

host population. In fact, their earnings per head are just over half the UK average , so their contribution to GDP is more likely to be in the region of 0.4% to 0.5%.

16 An extra 300,000 people adds 0.5% to the population. This excludes accompanying dependants. The NIER data referred to in paragraph 9 shows that in 2004-5 there were 200,000 A8 migrants of whom 142,000 were working age employed. The non-workers therefore add about 40% to the working population. The total addition to the population is therefore likely to be in the region of 0.7% of the population and the impact of A8 migration on the UKs GDP per head will be significantly negative.

### **International Experience**

17 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. 18 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".

19 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**

20 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.

22 March, 2007

## NOTES

- [i] Hansard, 18 October, 2006 Col 288 WH.
- [ii] Accession Monitoring Report, IND February, 2007.
- [iii] Hansard 10 November, 2004 Col 826.
- [iv] See Briefing Paper 1.10 on [www.migrationwatchuk.org](http://www.migrationwatchuk.org)
- [v] 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.
- [vi] 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."

- vii] Hansard - 18 October, 2006 Col 288 WH.
- [viii] See Migration Watch Briefing Paper 1.12.