



Economic Impacts of Immigration to the UK

1. Summary

- The impact of immigration into the UK on **GDP per head** – the key metric measuring prosperity – is essentially negligible (see section 3 below)
- Although labour market effects are notoriously difficult to estimate, there is tentative evidence to show that some immigration has had negative effect on the **employment of UK-born workers** (4.2). There is also substantial anecdotal evidence that workers in some sectors of the economy have suffered more than others from competition with migrant labour: the IT industry is one such sector (4.2)
- Since 1997 three-quarters of **employment created in the UK** economy has been taken by immigrants (4.4)
- On the impact of immigration on **average wage levels**, the evidence is again inconclusive (5.1), but there is a strong consensus of opinion that immigration has harmed the earnings of the most poorly-paid UK-born members of the labour force (5.2)
- The methodology used to demonstrate alleged positive **fiscal impacts** is flawed and partial (section 6); in any case calculations of the size of the fiscal impact, whether negative or positive, are extremely small.

2. Introduction

This briefing paper deals with the conventional macroeconomic and labour market impacts of net immigration – GDP per head, the impact on the Government's fiscal balance, and the impact on wages and employment. Sources, mainly official, are listed at the end of the paper.

3. Impact of Immigration on GDP per Head

The gross domestic product of a country divided by the number of its citizens is regarded as the standard measure of the prosperity of the inhabitants of a country. In 2010, the UK's GDP per head was ranked 21st in the world at around £21,500.

Ideally, in assessing the benefits of immigration, it is the GDP per head of the 'resident' population of the UK which should be the focus.

3.1 House of Lords Report

In 2008 the report of the Economic Affairs Committee of the House of Lords concluded (Para. 62) ([Click here](#)):

“The overall conclusion from existing evidence is that immigration has very small impacts on GDP per capita, whether these impacts are positive or negative. This conclusion is in line with findings of studies of the economic impacts of immigration in other countries including the US.”

3.2 Migration Advisory Committee (MAC)

In November 2010, in its inquiry into the economic impacts of limiting immigration of skilled workers, the MAC sought to answer two questions concerning the effects of net migration on GDP per head: first, what sort of impact does immigration overall have? Second, what is the likely impact on GDP per head of skilled migrants – those in tiers 1 & 2 of the Points Based System? To answer these questions the MAC used calculations, based on the HM Treasury model of the economy, to see what would be the effect on GDP per head of a net reduction in immigration.

Taking the first question, the MAC referred to an estimate produced by HM Treasury that the impact of a reduction of 50,000 in annual net migration would have a “negligible” impact on GDP per head (p.150) ([Click here](#)):

“HM Treasury estimated that a reduction in annual net migration of 50,000 could result in a negligible one year reduction in GDP per capita growth”

Taking the second question, the MAC calculated that after one year of a fall of 10,000 in net migration the result would be that GDP per head would be 0.027 % lower, equivalent to £6. This is entirely negligible (Para. 7.58) ([Click here](#)):

“Second, we calculate the impact of a reduction in annual net migration of 10,000 on GDP per capita growth, by calculating GDP per head both before and after the reduction in annual net migration, and examining the change. We estimate that the one year impact of a reduction in net migration of 10,000 on GDP per capita growth would be -0.027 percentage points. That is, a reduction in net migration of 10,000 results in GDP per capita being 0.027 per cent lower in the following year.”

3.3 National Institute of Economic and Social Research (NIESR)

NIESR, founded in 1938, is the UK’s longest established economic research institute. The NIESR have modelled the impact on the UK’s economy of the very big movement of labour – there was net migration of around 625,000 - into the UK between 2004 and 2009 from the eight Eastern European countries which joined the EU in 2004. The conclusion of their study is ([Click here](#)):

“...the long-run impact on [UK] GDP per capita [of EU enlargement] is expected to be negligible.”

4. Employment

The critical issue for migration policy is to what extent, if any, does net immigration deprive members of the UK resident labour force of jobs and thus increase unemployment? The most recent data on employment (published by the Government in June 2012) found that employment of UK born people had fallen over the most recent twelve month period whilst employment of non-UK born people had increased ([Click here](#)):

“The number of UK born people in employment was 25.08 million in the three months to March 2012, down 8,000 on a year earlier. The number of non-UK born people in employment was 4.06 million, up 16,000 from a year earlier”.

Comparing employment levels at the end of March in 1997 with those at the end of March 2011, around 2.9 million additional jobs have been created over the 14 years since 1997: of these, around 75 per cent were taken by non-UK – born workers.

The results of academic studies which have looked into the effects of migration on the UK labour market are mostly inconclusive – research that demonstrates that there is no effect on unemployment has been contradicted by research coming to the opposite conclusion. However, the Government’s Migration Advisory Committee showed earlier in 2012 that there was evidence of a tentative negative impact of immigration on employment of UK-born workers.

House of Lords Report

4.1 The House of Lords reported (Para. 85) ([Click here](#)):

“The available evidence is insufficient to draw clear conclusions about the impact of immigration on unemployment in the UK”.

In coming to this conclusion, the House of Lords report made one significant caveat: some studies it looked at concluded that migration had no impact on employment levels because of the lack of statistical ‘significance’ of their findings. The House of Lords report criticised this assumption (Para. 83) ([Click here](#)):

“Professor Rowthorn also disagreed with the clear conclusion the Government has drawn from the DWP study and the previous study by Professor Dustmann. He pointed out that both studies did find relatively large but statistically insignificant effects of immigration on unemployment. He argued that finding effects that are statistically insignificant “does not mean that they are ‘small’, as the authors claim. It simply means that there is too much noise in the system to estimate them accurately” (p 8). Professor Richard Pearson also warned that studies such as that by the DWP have “severe methodological limitations” (p 485).”

4.2 Migration Advisory Committee

The MAC has published two reports on the economic impacts of migration. The first one, published in November 2010 and specifically focusing on the employment impact on UK workers of skilled migrants, concluded that overall negative impacts were unlikely but it did importantly conclude that there was “repeated anecdotal evidence” of “negative effects” being experienced by UK – born individuals at the local level and in certain occupations, specifically IT (Para 7.103) ([Click here](#)):

“Academic studies which inevitably average out the effects of immigration cannot provide the whole story of the effect of migration on employment. As discussed in Migration Advisory Committee (2009c), there is anecdotal evidence that migration may displace non-migrant workers in some circumstances. For example, there is some evidence that IT workers may be displaced by those entering through the intra-company transfer route. However, such effects are of a partial equilibrium nature. It is possible, but not proven, that if UK companies improve their efficiency by out-sourcing their IT work to foreign companies using migrant workers, this may allow those companies to be more competitive in foreign markets. It may also mean that some UK companies keep jobs within the UK that they would otherwise move offshore. As such, some displacement of UK IT workers is not inconsistent with positive net job creation in the UK as a whole.”

In a subsequent report – ‘Analysis of the Impacts of Migration’ – published in January 2012, the MAC did find a tentative negative relationship between the employment of ‘natives’ in the UK and non-EU migration (Para 25-6) ([Click here](#)):

“We carried out our own analysis, examining the association between migration and native employment rates in Great Britain over the period 1975 to 2010. We found a tentative negative association between working-age migrants and native employment when the economy is below full capacity, for non-EU migrants and for the period 1995-2010. As a starting point for analysis, 100 additional non-EU migrants may cautiously be

estimated to be associated with a reduction in employment of 23 native workers. But those migrants who have been in the UK for over five years are not associated with displacement of UK born workers. The change in the stock of the non-EU working age population between 2005 and 2010 was approximately 700,000. An associated displacement rate of 0.23 suggests that UK born employment was therefore 160,000 lower. Between 1995 and 2010 employment of non-British born working age people rose by approximately 2.1 million. Any associated displacement of British born workers was around 160,000 of the additional 2.1 million jobs held by migrants, or about 1 in 13. It would not be appropriate to assume the same impact in a time of strong economic growth, and further research and analysis of what to assume in such circumstances would be justified.

4.3 National Institute of Economic and Social Research

NIESR ([Click here](#)) in the study mentioned above found that over the six year period from 2004 to 2009, the impact on the UK's unemployment rate of immigration into the UK from the eight Eastern European countries which joined the EU in 2004 was very small. Their modelling showed an average annual rate of increase in UK unemployment of 0.08 percentage points.

4.4 Office for National Statistics

ONS published official data on UK employment to the end of March 2011 in June 2011. This showed that over the year to the end of March 2011 the vast majority of jobs created in the UK had been taken by migrants ([Click here](#)):

“The number of UK born people in employment was 25.09 million in the three months to March 2011, up 77,000 on a year earlier. The number of non-UK born people in employment was 4.04 million, up 334,000 from a year earlier”.

Between the end of the first quarter of 1997 and the first quarter of 2011, there were almost 2.9 million additional persons employed in the UK, of whom almost three quarters – 2.1 million - were born outside the UK.

5. Wages

There are two impacts that net migration could have on wages: first, by expanding the labour supply, it might have an adverse effect on the level of wages overall; second, without effecting the average level of wages, it might have impacts on the wage distribution – the spread of wages from the most highly paid at the top to the least well paid at the bottom. In particular, in view of the disproportionate concentration of migrants in sectors of the economy that have had historically low wages – on those UK-born workers who earn the least.

All of the studies agree that no reliable conclusion can be come to about the impact of immigration on overall wage rates because those few academic studies that have been done have come to opposite conclusions. However, on the wage distribution, The MAC and House of Lords studies, together with another official research study commissioned by the Department of Communities and Local Government, did find significant effects of immigration on low earning UK-born workers.

5.1 Migration Advisory Committee

Looking at average wage levels in the UK, the MAC was unable to find any significant impacts of migration (Para. 7.88) ([Click here](#)):

“The available empirical evidence finds, on average, little impact of migration on overall wages”

However, the MAC did find impacts on the wage distribution, with greater pay inequality and adverse impacts on the most poorly paid UK-born workers (Para. 7.100) ([Click here](#)):

“In summary, the literature suggests small impacts of migration on average wages but notable effects across the wage distribution.....In contrast, the studies do broadly agree that migration is more likely to increase wages at the top of the distribution, and reduce wages at the bottom of the distribution. Consequently, migration may have caused the pay distribution to become more unequal than it otherwise would have been”.

5.2 House of Lords Report

On the wage distribution, the Economic Affairs Committee of the House of Lords arrived at a similar conclusion (Para. 78) ([Click here](#)):

“The available evidence suggests that immigration has had a small negative impact on the lowest-paid workers in the UK, and a small positive impact on the earnings of higher-paid workers. Resident workers whose wages have been adversely affected by immigration are likely to include a significant proportion of previous immigrants and workers from ethnic minority groups”.

5.3 National Institute of Economic and Social Research

NIESR ([Click here](#)) did not study wage distribution impacts, but it did report that its modelling found a small negative impact on real wage growth in the UK caused by net immigration from those countries that joined the EU in 2004.

5.4 Department for Communities and Local Government (DCLG)

The report – “International Migration and Rural Communities” – was commissioned by the DCLG prior to the formation of the Coalition in May 2010 and published in March 2011. It is a study of the impact of migration on rural economies in England, mostly in the east of England, the South East and the South West where over 70 per cent of A8 migrants have settled, predominantly working in food manufacturing, agriculture and hotel and restaurants.

Whilst acknowledging the scale of the contribution of these migrants to these rural economies, the DCLG study noted the adverse impact of immigration on the wages of the most poorly paid UK-born workers they studied (3.2.1, page 46) ([Click here](#)):

“...there is some evidence that suggests immigration has had a significant but small impact on wages of previous waves of lower-skilled migrant workers and that when the occupational structure of the UK workforce is taken into account, there is a negative impact on the wages of UK workers at the bottom of the occupational distribution.”

6. Fiscal Impacts

Fiscal impacts affect taxpayers. Assessment of them looks at the additional tax revenues generated by migrants and then compares these with the amount of public spending on those public services, like health or education, which migrants consume. Estimates of the net fiscal impact range from the positive to the negative, but all are characterized by being extremely small in relation to the size of the overall UK fiscal deficit – which, in 2011-12, is projected at around £120 billion. Table 1 shows a number of estimates produced in recent years by various researchers:

Table 12: Estimates of the Net Fiscal Impact of Immigration

Research Source	Net Fiscal Contribution (£ billion)	Year
Home Office (2002)	2.5	1999-2000
IPPR (2005)	1.9	1999-2000
IPPR	1.7	2000-01
IPPR	1.8	2001-02
IPPR	-0.1	2002-03
MigrationWatchUK (2006)	-1.0	1999-2000
MigrationWatchUK	-3.8	1999-2000
MigrationWatchUK	-5.0	2003-04
Prof. Robert Rowthorn (2008)	0.6	2003-4

These estimates are different because of differences in assumptions used – for example, whether expenditure on children who have one migrant parent should be wholly allocated to the UK-born population when calculating fiscal impacts. Leaving differences aside, what all these estimates suggest is that any impacts, positive or negative, are likely to be very small.

6.1 House of Lords Report

The study noted that in determining whether immigrants have a negative or positive impact on public finances, any calculation is very sensitive to what costs and benefits are measured. There has been disagreement in particular about what costs should be included and whether allowance should be made for cost impacts specific to migrants – for example, the cost of providing translation services or extra educational resources for people whose first language is not English.

The report noted (Para 131-2) ([Click here](#)):

“131. Professor Rowthorn showed that the results of fiscal impact studies depend not only on the treatment of children but also on a range of other factors including, for example, whether a proportion of defence costs are attributed to migrants. Different treatment of these factors leads to various estimates for the net fiscal impact of immigrants, ranging from -£5.3 billion to +£2.6 billion for 2003–04. Although it is “difficult to obtain an accurate picture of how immigration has affected public finances”, Professor Rowthorn concluded that the potential fiscal impact is small relative to the size of the total economy, ranging from the equivalent of -0.47% to +0.23% of GDP (p.6).”

“...the fiscal impact [of immigration] is small compared to GDP and cannot be used to justify large-scale immigration”.

6.2 Migration Advisory Committee

In analysing any fiscal impacts, the MAC only looked at an atypical category of migrants – those skilled migrants in Tiers 1 & 2 of the Points Based System. Their report concluded that because of the high employment and earnings of workers in these categories, and their relatively youthful profile, it was “highly likely on average” that migrants in these categories would make a positive net fiscal contribution, without however being able to estimate the scale of this contribution.

The report also noted (Para. 7.132) ([Click here](#)):

“Tier 1 and 2 migrants will age and, if they remain in the UK permanently, will make a greater call on state services that are increasingly consumed with age, such as pensions and healthcare. Temporary migration is more likely to have a positive effect on government finances than migration leading to settlement.”

7. Data Sources

7.1 Migration Advisory Committee

The key source for understanding the economic and fiscal impacts of migration is Chapter 7 of the November 2010 report of the Migration Advisory Committee (MAC) – Limits on Migration:

<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/mac-limits-t1-t2/report.pdf?view=Binary>

The follow-up report by the MAC – Analysis of the Impacts of Migration – argues that non-EU migration into the UK has had a negative impact on the employment of UK-born members of the labour force:

<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/01-analysis-report/analysis-of-the-impacts?view=Binary>

7.2 House of Lords – Economic Affairs Committee

Another authoritative study of the impacts of immigration is the study by the Economic Affairs Committee of the House of Lords published in April 2008 – The Economic Impact of Immigration:

<http://www.publications.parliament.uk/pa/ld200708/ldselect/ldeconaf/82/82.pdf>

7.3 National Institute of Economic and Social Research

Labour mobility within the EU – the impact of enlargement and the functioning of the transitional arrangements – Discussion Paper No. 379 - NIESR, April 2011:

http://www.niesr.ac.uk/pdf/270411_143310.pdf

7.4 Department for Communities and Local Government

International Migration and Rural Economies – DCLG, March 2011:

<http://www.communities.gov.uk/documents/corporate/pdf/1854822.pdf>

7.5 Office for National Statistics

Labour Market Statistics June 2012:

http://www.ons.gov.uk/ons/dcp171778_265818.pdf

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