



# Economic impacts of immigration to the UK

## Summary

- The impact of immigration into the UK on **GDP per head** – a key measure of prosperity - is essentially negligible.
- There is tentative evidence to show that immigration of non-EU workers into the UK has a negative effect on the **employment of UK-born workers**, and there is substantial anecdotal evidence that workers in some sectors of the economy have suffered from competition with migrant labour: the IT industry is one such sector.
- Since 2010 over half of jobs **created in the UK** economy have been taken by immigrants
- On the impact of immigration on **average wage levels**, the evidence is varied, but there is broad agreement that immigration has harmed the earnings of the most poorly-paid UK-born members of the labour force as well as those in the semi-unskilled service sector.
- Immigration has been a fiscal cost to the UK Exchequer. Between 1995 and 2011 migrants in the UK were a fiscal cost totalling £160 billion, or over £9 billion a year.

## 1. Impact of Immigration on the economic 'welfare' of the existing resident population of the UK

Four studies have concluded that the impact of immigration on GDP per head is negligible (see below) but the Migration Advisory Committee pointed out in their 2012 report, [Analysis of the Impacts of Migration](#) that it is the immigrants themselves rather than the residents who are the main gainers from an increase in GDP. They suggested that the metric should be Net Present Value (NPV) based on total welfare of the resident population.

## 1.1 House of Lords Report

In 2008 the report of the Economic Affairs Committee of the House of Lords concluded (Abstract summarizing the key conclusions of the report) ([Click here](#)):

*“Overall GDP, which the Government has persistently emphasised, is an irrelevant and misleading criterion for assessing the economic impacts of immigration on the UK. The total size of an economy is not an index of prosperity. The focus of analysis should rather be on the effects of immigration on income per head of the resident population. Both theory and the available empirical evidence indicate that these effects are small, especially in the long run when the economy fully adjusts to the increased supply of labour. In the long run, the main economic effect of immigration is to enlarge the economy, with relatively small costs and benefits for the incomes of the resident population.”*

## 1.2 Office for Budget Responsibility

In 2012 the independent Office for Budget Responsibility calculated that net migration of 250,000 a year would add 0.5% to GDP annually. However the population would increase by 0.4% so the impact on GDP per head would be of the order of 0.1%. Immigration at this rate would add 25 million to our population by 2060 bringing it to 88 million.

## 1.3 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 (page 2) is ([Click here](#)):

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

## 1.4 Organisation for Economic Cooperation and Development

In a wide ranging study of OECD countries it was found that the impact of cumulative waves of immigration over a 50 year period was on average around zero and rarely exceeded 0.5% of GDP both negatively or positively. ([See here](#))

# 2. Unemployment

A critical issue for migration policy is to what extent, if any, does net immigration increase unemployment? Comparing employment levels at the end of 2010 with those at the end of 2015, around 2.1 million additional jobs have been created: of these, around 53 per cent – 1.1 million – have been taken by non-UK born workers and a million have been taken by British workers. Until recently, academic

studies of the effects of migration on the UK labour market have been inconclusive – research that demonstrates that there is no effect on unemployment has been contradicted by research coming to the opposite conclusion. However, the MAC tentatively concluded in a 2012 report that for every 100 non-EU migrants coming to the UK in the period 1995 –2010 there was a fall in employment of 23 native workers (see below).

## 2.1 House of Lords Report

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).

## 2.2 Migration Advisory Committee

The MAC in its January 2012 report concluded that there was “tentative” evidence that when the UK economy was operating at below full capacity immigration of workers from outside the EU was associated with a reduction in employment of native workers (para 26) [Click here](#):

*“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.....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.”*

In a previous report, specifically focusing on the employment impact on UK workers of skilled migrants, the MAC 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.”*

### 2.3 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. The table can be found on page 27 of their study.

## 3. 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 affecting 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.

Many studies find that no reliable conclusion can be reached about the impact of immigration on overall wage, although the Bank of England has recently found that the immigrant to native ratio has a small negative impact on average British wages. On wage distribution many studies have found significant effects on low earners. The MAC and the House of Lords study, together with a study commissioned by the Department of Communities and Local Government all found significant effects of immigration on low earning UK-born workers. The Bank of England looked at the impact of immigration on wages by sector and found that immigration had reduced wages semi/unskilled services sector.

### 3.1 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”.*

### 3.2 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”.*

### 3.3 Department for Communities and Local Government (DCLG)

The report – “International Migration and Rural Communities” – commissioned by the DCLG and published in March 2011 focused on the impact of migration on rural economies in England, mostly in the east, South East and the South West of England 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) ([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.”*

### **3.4 Bank of England**

A 2015 Bank of England report focused on the impact of wages across different occupation groups. They found that the biggest impact of immigration was felt in the semi/unskilled services sector where a 10 percentage point rise in the proportion of immigrants in the sector was associated with a 2 percent reduction in wages. On average wages the Bank of England concluded that immigration has ‘a small, significant, negative impact’. ([See here](#))

### **3.5 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.

## 4. 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, that migrants consume. Estimates of the net fiscal impact range from the positive to the negative, but all are characterized by being small relative to the size of the overall UK fiscal deficit – which, in 2015-16, is projected at around £69 billion. Table 1 shows a number of estimates produced in recent years by various researchers:

Table 1: 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
Migration Watch UK (2006)	-1.0	1999-2000
Migration Watch UK	-3.8	1999-2000
Migration Watch UK	-5.0	2003-04
Prof. Robert Rowthorn (2008)	0.6	2003-4
Dustmann and Frattini (2013)	-5.6	1995-2011
Migration Watch UK (2014)	-6.8 to -9.4	1995-2011
Dustmann and Frattini (2014)	-6.7 to 9.4	1995-2011

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

### 4.1 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 (paras. 131 - 132) ([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.."*

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

## 4.2 Migration Advisory Committee

In analysing any fiscal impacts, the MAC only looked at an atypical category of migrants – those highly skilled and 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. This is to be expected given their economic profile.

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."*

## 4.3 CReAM

In 2013 the Centre for Research and Analysis on Migration published a discussion paper which found that over the period 1995 to 2011 migrants in the UK had made a negative fiscal contribution totaling £95 billion, or £5.6 billion a year. ([See here](#)) A Migration Watch UK analysis of their work found questionable assumptions regarding the fiscal contribution of migrants, in particular relating to their patterns of property and business ownership. Remedying these assumptions Migration Watch UK estimated that the



fiscal impact was £160 billion between 1995 and 2011. (See [here](#)).

The finalised paper from CReAM published in 2014 found a net fiscal cost of between £114 and £159 billion over the period ([See here](#)) almost the exact figure calculated by Migration Watch UK .

## 5. Data Sources

### 5.1 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 – Limits on Migration:

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

In January 2012 the MAC published a follow up report focussing on some of the methodological issues to do with the analysis of the economic and social impacts of migration. This report came to the “tentative” conclusion that in certain circumstances immigration of non-EU workers was associated with a fall in employment of UK workers:

<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/>

### 5.2 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>

### 5.3 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](http://www.niesr.ac.uk/pdf/270411_143310.pdf)

### 5.4 Department for Communities and Local Government

International Migration and Rural Economies – DCLG, March 2011:

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

### 5.5 Office for National Statistics

Labour Market Statistics:

<http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?table-id=8&dataset=lms>

[http://www.ons.gov.uk/ons/dcp171778\\_257901.pdf](http://www.ons.gov.uk/ons/dcp171778_257901.pdf)

### 5.6 Dustmann and Frattini, The Fiscal Effects of Immigration to the UK, Discussion Paper 22/13.

**2013.**

[http://www.cream-migration.org/publ\\_uploads/CDP\\_22\\_13.pdf](http://www.cream-migration.org/publ_uploads/CDP_22_13.pdf)

**5.7 Dustmann and Frattini, The Fiscal Effects of Immigration to the UK, The Economic Journal, 2014**

<http://www.cream-migration.org/files/FiscalEJ.pdf>

**5.8 Migration Watch UK, An Assessment of the Fiscal Effects of Immigration to the UK, BP 329, 2014.**

URL: <http://www.migrationwatchuk.org/briefing-paper/329>

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