

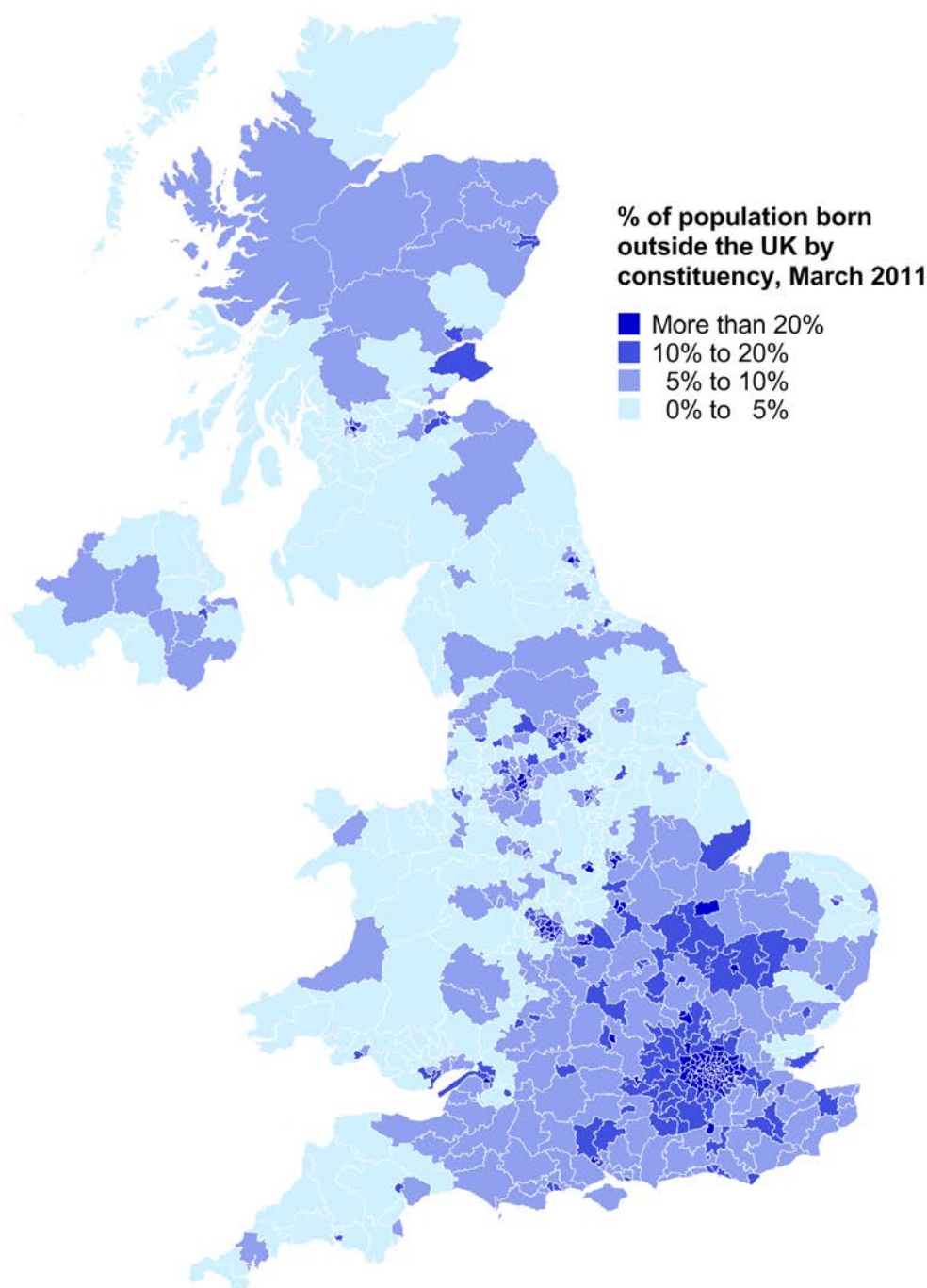


## BRIEFING PAPER

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# Impacts of immigration on population and the economy

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1. Population
2. Employment and earnings
3. Employers and skills
4. Public finances
5. Public services
6. Living standards

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## Summary

This note looks at the impacts of immigration on different aspects of the economy and society, including population growth, employment, earnings, public services and the public finances.

In January-March 2016, there were an estimated 8.95 million people living in the UK who were born in other countries, although this includes some UK nationals. An estimated 5.87 million people living in the UK were nationals of other countries.<sup>1</sup>

Immigrants to the UK are more concentrated in working age-groups than the UK population as a whole. In Q1 2016 around 54% of people born abroad and living in the UK were aged 25-49, compared with around 30% of those born in the UK.

The impact of immigration on employment, wages and other economic indicators depends on the characteristics of immigrants and the extent to which their skills complement those of existing workers. Most studies looking at the impact on UK employment have found small or ambiguous effects on average, but there is some evidence of adverse effects on employment during periods when the economy is weak. Looking at wages, most of the literature concludes a rise in the number of migrant workers has little effect on wages *on average* but adverse effects tend to be focused on low-skilled workers.

Similarly, the extent to which immigrants contribute to the public finances and the impact on public services is likely to depend on their age, skills, employment income and if they have children. Research suggests immigrants who have arrived in the UK more recently and who come from countries in the European Economic Area (EEA) are more likely to make a positive contribution to public finances.

While this note discusses the impact of immigration at the national level, effects are likely to vary by local areas. In its 2014 report on *Migrants in low-skilled work*, the Migration Advisory Committee observed:<sup>2</sup>

... there needs to be greater recognition of, and support for, the local impact of immigration. The non-UK born population of England and Wales grew by 2.9 million between 2001-11. Three quarters of this rise happened in just a quarter of local authorities. Although we show that, nationally, the economic impact of immigration on GDP per head, productivity and prices is very modest, the economic and social impact on particular local authorities is much stronger. This includes pressure on education and health services and on the housing market and potential problems around cohesion, integration and wellbeing.

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<sup>1</sup> ONS *Labour Force Survey* microdata for January-March 2016.

<sup>2</sup> Migration Advisory Committee, [Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK - full report](#), July 2014, p10.

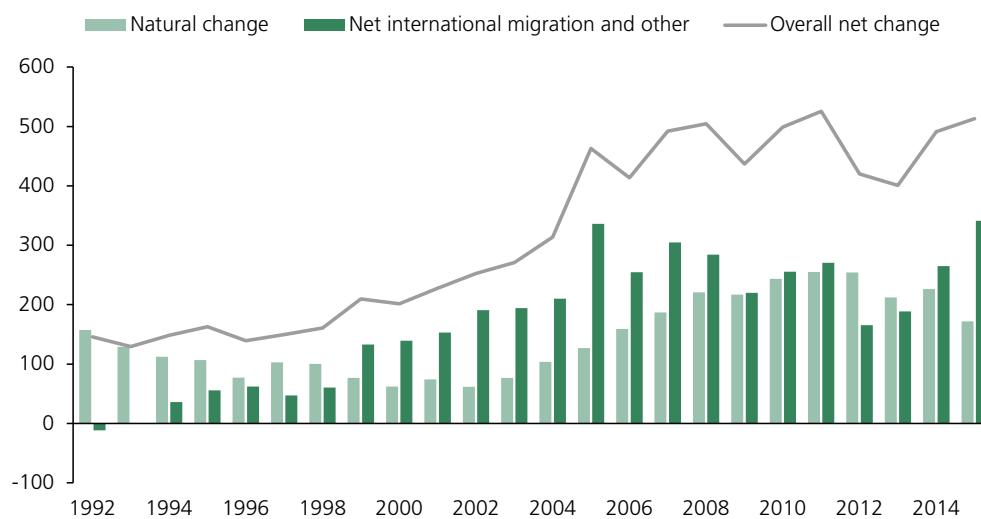
# 1. Population

## 1.1 Migration and population growth

Migration is one of two factors that drive population change. In any given period, the overall change in the size of a population is the sum of net migration into that population (immigration minus emigration) plus natural change (births minus deaths).

The chart below shows population change in the United Kingdom in each year ending mid-1992 to mid-2015, along with these components of change.

### Annual population change in the UK, Thousands, 1992-2015



Notes: "Other changes" comprise changes to the size of armed forces stationed in the UK and other special population adjustments. Source: ONS, [Population Estimates for UK, England and Wales, Scotland and Northern Ireland: mid-2015](#)

Annual population growth in the UK has increased during the last 25 years, from around 146,000 in the year ending mid-1992 to around 513,000 in the year ending mid-2015.

Natural change contributed more to population growth than net migration between 1991 and 1998. Since 1998, both natural change and net migration have increased. Net migration was the largest component of population change from 1998 to 2011, but it was overtaken by natural change in 2012 and 2013, mainly due to a reduction in net migration driven by changes to immigration rules introduced during the 2010-15 Parliament. Net migration increased in 2014 and 2015, while natural change has fallen back from its recent high at the end of the last decade.

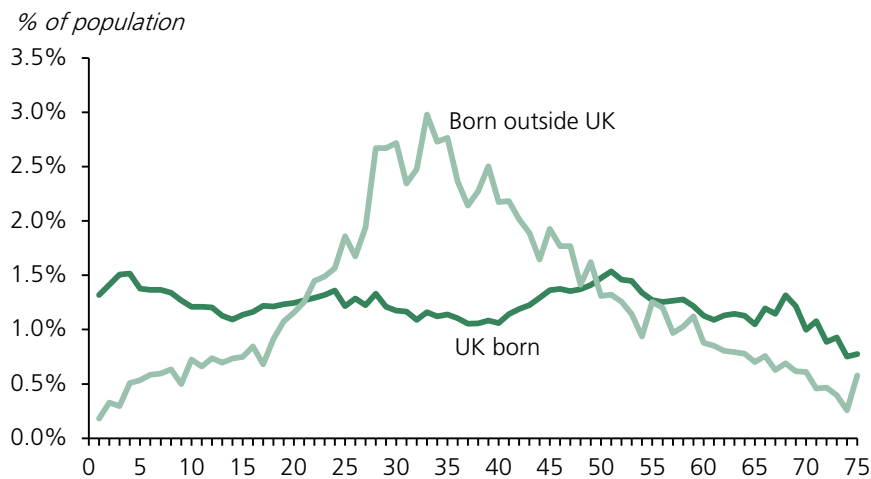
During the decade to mid-2015, net inward migration was directly responsible for around 54% of total population growth in the UK; although a part of the natural change during this period was due to the children of women born abroad, so natural change would have been smaller with zero net migration.

## 1.2 Impact of migration on the age-structure of the population

Immigrants to the UK are more concentrated in working age-groups than the UK population as a whole. In Q1 2016 around 54% of people born abroad and living in the UK were aged 25-49, compared with around 30% of those born in the UK.

The chart below shows the distribution of the UK population by age and country of birth. Note a larger proportion of children are foreign nationals than are foreign born, because children of migrants born in the UK take the nationality of their parents in the first instance.

### Age-structure of the population by country of birth, United Kingdom, Q1 2016



Source: Labour Force Survey, Q1 2016

The impact of migration on the age-structure of the UK population is therefore to increase the size of the working age population relative to the number of children and pensioners. This has implications for public finances (as discussed further in section 4). People of working age tend to contribute more in taxes than they receive in public spending, in contrast to pensioners and children who benefit from age-related spending, for example on State Pensions or schools. Thus an increase in the number of working age people relative to other age groups may be expected to reduce age-related pressures on the public finances. (That said, there are other ways in which immigration affects public services, for example through increased demand for services or local impacts.)

One way to quantify the relationship between immigration and the age structure of the population is with a dependency ratio, showing the number of people of working age in the population for each person of pension age. The table shows the proportion of the population aged 65 and older and the old age dependency ratio for the UK as a whole, the native population of the UK, and the migrant population of the UK.

The presence of foreign born migrants in the population increases the ratio of working age people to pensioners by 0.33, which is equivalent to one additional working age person in the population for every three pensioners.

### Percentage of the population aged 65 and older and old age dependency ratios, United Kingdom, Q1 2016

	% aged 65 and older	Old-age dependency ratio
<b>Total population of the UK</b>	<b>17.6%</b>	<b>3.33</b>
UK born	18.7%	3.00
Foreign born	11.0%	6.72
UK national	18.6%	3.07
Foreign national	10.8%	6.31

Notes: The old age dependency ratio is calculated as the number of people of working age divided by the number of people of state pension age. For the purposes of this analysis state pension age was taken as 65 for men and 63 for women in Q1 2016.

Source: Labour Force Survey, Q1 2016

## 1.3 Projected impact of migration on the population in future years

The Office for National Statistics (ONS) produces national population projections every two years. These projections show how the population of the UK would change given certain assumptions about future levels of fertility, mortality and migration. The most recent national population projections for the UK are the [2014-based projections](#).

These projections are not forecasts, in that they do not anticipate the impact of future government policies or changing economic circumstances on demographic behaviour. They show how the population of the UK would evolve under assumptions based on recent trends, but they do not demonstrate that those assumptions will hold.

In particular, the projections were produced before the referendum on the UK's membership of the European Union on 23 June 2016. Possible changes to immigration rules following the UK's withdrawal from the EU are likely to affect net migration levels in future years.

In order to show what would happen assuming different levels of net migration to the UK, the ONS produces four separate population projections. These are:

- Principal projection – Which assumes net migration of +185,000 a year over the long-term
- High migration variant projection – Which assumes net migration of +265,000 a year over the long-term
- Low migration variant projection – Which assumes net migration of +105,000 a year over the long-term
- Zero net migration variant projection – Which assumes zero net migration a year over the long-term.<sup>3</sup>

<sup>3</sup> In the short-term, ONS assumes net migration changes from its level in the year ending mid- 2014 to the assumed long-term level over a period of seven years. See [Compendium to the National Population Projections: 2014-based projections](#) for further details.

In the 25 years from 2014 to 2039, total projected population growth varies under these different assumed levels of net migration. In the principal projection, the population of the UK is projected to grow from 64.6 million in 2014 to 74.3 million in 2039, which is growth of 9.7 million.

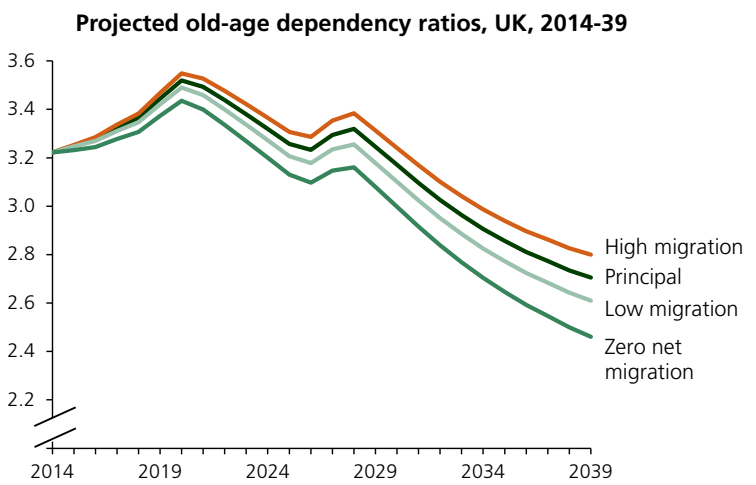
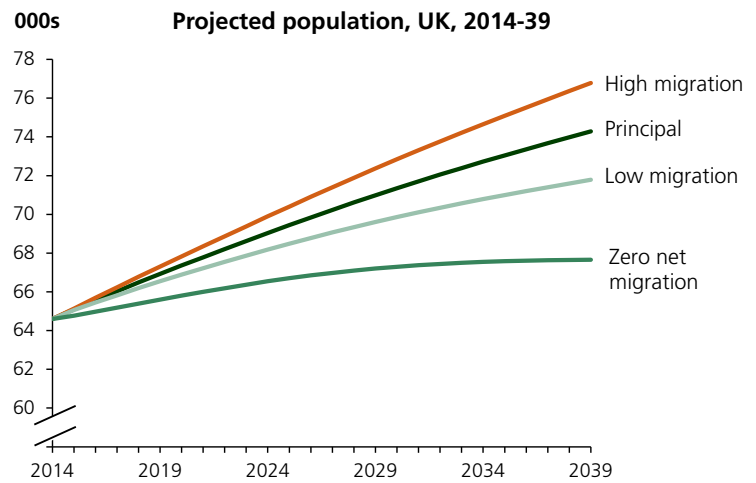
Of this, around 5.0 million is due to assumed net migration, and a further 1.7 million is due to additional natural change from the assumed level of net migration. Around 3.1 million is due to natural change, assuming no net migration.

In the high migration scenario the population of the UK is projected to grow by 12.2 million to 76.8 million, while in the low migration scenario the population would grow by 7.2 million to 71.8 million.

In the scenario with zero net migration, the population would grow by 3.1 million to 67.7 million in 2039, by which time population growth is projected to have almost stopped.

These different outcomes for population growth under different assumed levels of net migration have an impact on the average age of the population and the level of support for pensioners from the working age population. The old age dependency ratio is projected to fall under every scenario, meaning there will be fewer people of working age for each pensioner, even assuming that the current high levels of net migration continue.

In the principal projection, the ratio of working age people to pensioners falls from 3.22 in 2014 to 2.71 in 2039. In the high migration scenario it falls to 2.80, while in the low migration and zero net migration scenarios it falls to 2.61 and 2.46 respectively.



**Percentage of the population aged 65 and older and old age dependency ratios, United Kingdom, 2039**

	<u>% aged 65 and older</u>	<u>Old-age dependency ratio</u>
<b>Principal projection</b>	<b>24.3%</b>	<b>2.71</b>
High migration	23.7%	2.80
Low migration	25.0%	2.61
Zero net migration	26.3%	2.46

Notes: The old age dependency ratio is calculated as the number of people of working age divided by the number of people of state pension age. Under the current schedule the state pension age in mid-2039 will be 67 for both sexes. Source: ONS, [National Population Projections: 2014-based Statistical Bulletin](#)

## 2. Employment and earnings

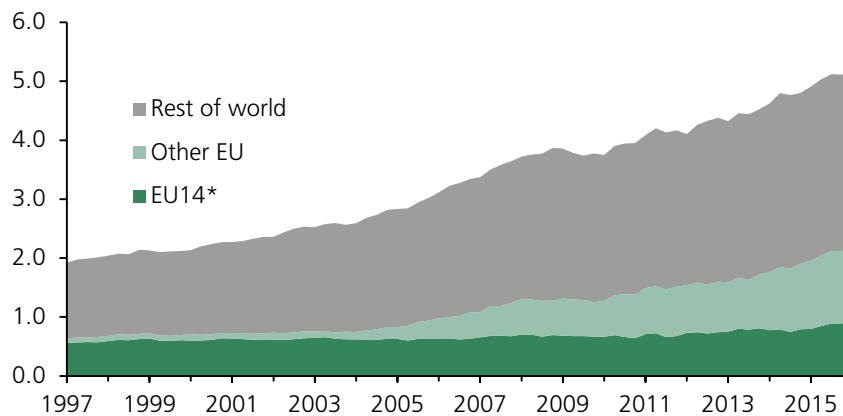
### 2.1 Numbers of people in employment

5.24 million people born outside the UK were working in the UK at Q1 2016, 17% of all people in employment (31.49 million).<sup>4</sup> This included:

- 2.21 million people born in other EU countries
- 3.03 million people born outside the EU

The number of workers born in other EU countries started to increase more sharply after 2004, following the accession to the EU of the A8 Eastern European countries.<sup>5</sup>

**People born in other countries who are working in UK, 1997-2016**  
*Millions, not seasonally adjusted*



\* Countries that joined the EU before 2004, not including the UK.  
Source: ONS *Labour Market Statistics, May 2016*, Table EMP06

On average, people of working age born elsewhere in the EU are more likely to be in work than those born in the UK. The employment rate for people aged 16-64 born elsewhere in the EU but living in the UK was 78.7% at Q1 2016, compared to 74.6% for people born in the UK. The employment rate is higher for people born in the A8 Eastern European countries which acceded to the EU in 2004, at 80.8%. For those born outside the EU, the employment rate is lower at 66.5%.

These figures are based on people's country of birth, rather than nationality. Some UK nationals may have been born in other countries and vice versa.

<sup>4</sup> Data on employment levels and rates by country of birth and nationality are taken from ONS, [Labour Market Statistics, May 2016, Table EMP06](#)

<sup>5</sup> The A8 countries are Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Slovenia and Slovakia. The EU14 countries are the EU members prior to 2004 (excluding the UK): Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland and Sweden.



## 2.2 Impact on UK-born workers

### Impacts in theory

#### Short term

The impact of immigration on the existing workforce in the short term depends on the extent to which immigrant labour is either a substitute for, or a complement to, existing workers. The more migrant workers can be considered a direct substitute for existing workers, the more downward pressure there is likely to be on wages for those jobs due to greater competition between workers. On the other hand, if migrant labour is complementary to existing workers (for example, because the two groups possess different skills) then this may be expected to boost productivity, leading to upward pressure on wages for existing workers.

However, even if migrant workers possess complementary skills, they may not be able to put them to use. If skilled migrants end up working in unskilled roles, there will likely be some negative effects for the existing unskilled workforce. It is also true that immigration may bring benefits for some existing workers at the same time as others lose out.

#### Long term

Economic theory suggests that impacts are more positive over the longer term, as the economy has time to adjust to the expansion in the number of workers. Demand for goods and services among immigrants is likely to translate to increased hiring and investment in the sectors which produce these items. This increase in demand for labour then feeds into increased employment and wages in these sectors. Additionally, the balance of goods and services produced in the economy may alter in response to the supply of new labour: if it is possible to produce certain items more cheaply, this should stimulate consumer demand in the relevant sector, which again should translate to increased hiring and investment, pushing up employment and wages. Consequently we might expect any negative effects in the short-term to reduce as time goes on, although these economic adjustments may take a long time to unfold.

That said, effects are likely to be time-dependent: the impact of immigration on employment and wages will be affected by current economic conditions. During an economic downturn when demand is constrained, there is more risk of displacement of existing workers. Firms are less likely to expand production despite the increase in labour supply, so migrant workers will be in greater competition for jobs with the existing workforce.

Impacts will also differ by geography. Other things being equal, we may expect that the largest short-term impacts will be felt in areas that see the largest growth in immigrant numbers, as local labour markets need time to adjust. Immigration into an area may also lead to some existing workers moving to new areas. However, while immigration flows can drive changes to wages and employment, the reverse is also true: immigrants are often drawn to areas experiencing economic growth

and strong demand for labour, in which case the results for the local economy would be more positive.

### Employment and unemployment

The academic literature generally finds that immigration does not displace non-migrant (sometimes referred to as 'native') workers but, in line with the theory, there may be short-term effects when the economy is performing poorly. A good summary of the existing research is presented in a report by the Home Office and the (former) Department for Business, Innovation and Skills, [\*Impacts of migration on UK native employment: An analytical review of the evidence\*](#) (March 2014).<sup>6</sup> Studies in this area generally define migrant workers as those not born in the UK.

A 2012 study by the Migration Advisory Committee found some evidence that a rise in migrant numbers from outside the EU during periods of economic weakness could be associated with a decline in native employment.<sup>7</sup> No statistically significant effects were found for immigration from the EU (while this does not rule out a relationship, it means that the statistical evidence is not strong enough to support that conclusion: indeed, Rowthorn (2014) suggests it would be equally valid to conclude from the statistical evidence that EU and non-EU immigration had similar effects).<sup>8</sup> The study also found that immigrants who had lived in the UK for over five years were not associated with any displacement of British workers, suggesting displacement effects dissipate over time.

A study by the National Institute of Economic and Social Research (NIESR) used National Insurance registrations of foreign nationals to investigate the effects of immigration on local labour markets in the UK between 2002/03 and 2010/11. They found that there is a "general lack of an aggregate impact of migration on unemployment".<sup>9</sup> In addition, they "find no evidence of a more adverse impact of immigration during the recent [2008-2009] recession".

### Wages

Most of the literature concludes a rise in the number of migrant workers has little effect on wages *on average* but adverse effects tend to be focused on low-skilled workers. These adverse effects are likely to be greatest for migrants already living in the UK. As noted by Manacorda et al (2012) new immigrants tend to be closer substitutes in terms of skills for previous immigrants than they are for UK-born workers.<sup>10</sup>

Focusing on the effect of immigration on wages of UK-born workers during the period 1997-2005, Dustmann et al (2013) found that immigration appeared to depress the pay of the 20% lowest paid UK-

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<sup>6</sup> See [Chapter 6, page 41](#).

<sup>7</sup> Migration Advisory Committee, [Analysis of the Impacts of Migration](#), January 2012.

<sup>8</sup> Rowthorn, R., [The Costs and Benefits of Large-scale immigration: Exploring the economic and demographic consequences for the UK](#), December 2015, p29.

<sup>9</sup> NIESR Discussion Paper 386, [Examining the relationship between immigration and unemployment using national insurance number registration data](#), January 2012.

<sup>10</sup> Manacorda, M., Manning, A. and Wadsworth, J., [The Impact of Immigration on the Structure of Wages: Theory and Evidence from Britain](#), 2012.

born workers but to increase pay for the other 80%: a 1% point increase in the share of migrants decreased wages by around 0.5% for the 10% lowest paid workers but increased wages by 0.6% at the middle of the earnings distribution.<sup>11</sup>

Nickell and Salaheen (2015) on the other hand found an increase in the share of immigrants relative to the native population had a slight negative impact on average wages, based on data for the period 1992-2014 (their analysis looked at wages of all workers, rather than just the UK-born population). Larger negative effects were observed in the unskilled and semi-skilled service sector, where a 1% point increase in the proportion of migrants decreased wages by around 0.2%. It appeared to make little difference to the results whether immigrants came from inside or outside the EU.<sup>12</sup>

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<sup>11</sup> Dustmann, C., Frattini, T. and Preston, I., [The Effect of Immigration along the Distribution of Wages](#), 2013.

<sup>12</sup> Nickell, S. and Salaheen, J., [The impact of immigration on occupational wages: evidence from Britain](#), Bank of England Staff Working Paper No 574, December 2015.

## 3. Employers and skills

### 3.1 Employment by sector

The concentration of migrant labour varies across sectors. The table below shows the proportion of workers born outside the UK by broad industry sector. It also shows the proportion of workers who first came to the UK in the last ten years, to identify more recent immigrants.

In certain subsectors, the proportions rise above the figures listed in the table. In particular, 42% of workers in the food manufacturing sector at Q1 2016 were born outside the UK (28% came to the UK in the last ten years).

#### % of people working in different sectors who were born outside the UK, Q1 2016

<i>% of workforce who were born outside the UK</i>		<i>% of workforce who were born outside the UK and first came to UK in last ten years</i>	
<b>Sector</b>	<b>% of total employment in sector</b>	<b>Sector</b>	<b>% of total employment in sector</b>
Accommodation & food services	28%	Accommodation & food services	16%
Transport & storage	22%	Information & communication	11%
Information & communication	22%	Manufacturing	9%
Admin & support services	20%	Transport & storage	9%
Health & social work	18%	Admin & support services	9%
Finance & insurance	18%	Finance & insurance	8%
Manufacturing	17%	Wholesale & retail	7%
Professional, scientific & technical	17%	Professional, scientific & technical	6%
Wholesale & retail	16%	Construction	6%
Construction	14%	Agriculture, forestry & fishing	6%
Education	13%	Health & social work	6%
Arts, recreation & other services	13%	Energy & water	6%
Energy & water	11%	Arts, recreation & other services	5%
Agriculture, forestry & fishing	11%	Education	3%
Public admin & defence	9%	Public admin & defence	2%
<b>Total services</b>	<b>17%</b>	<b>Total services</b>	<b>7%</b>
<b>All sectors</b>	<b>17%</b>	<b>All sectors</b>	<b>7%</b>

Note: Data are not seasonally adjusted

Source: ONS *Labour Force Survey* microdata, Q1 2016

### 3.2 High and low-skilled jobs

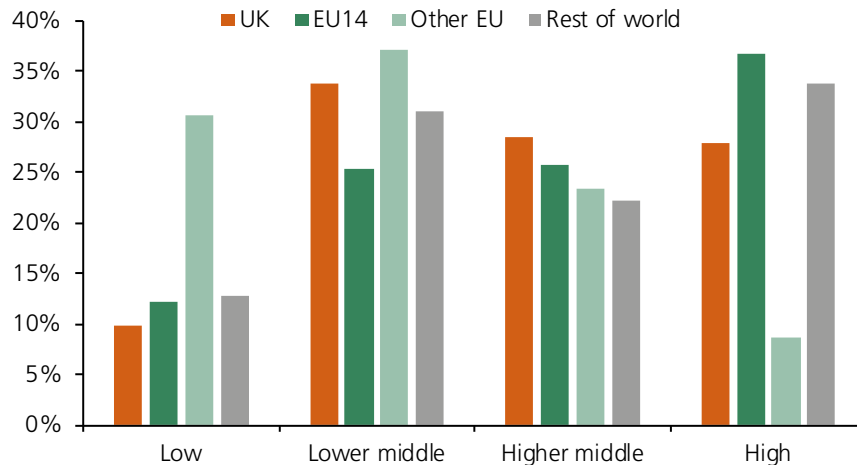
The proportion of workers employed at different 'skill levels' varies according to country of birth outside the UK, as shown in the chart. A much higher proportion of workers born in the EU A8 countries, which acceded to the EU in 2004,<sup>13</sup> worked in low-skilled jobs at Q1 2016 (30%) compared to those born in either the UK (10%), EU14 countries<sup>14</sup> (11%), or outside the EU (12%).

<sup>13</sup> The EU A8 countries are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

<sup>14</sup> Countries which were members of the EU before 2004, excluding the UK. The EU14 countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden.

Looking at high-skilled roles, people born in EU14 countries or born outside the EU are more likely to be employed in these jobs compared to people born in the UK. 39% of workers born in EU14 countries and 33% of workers born outside the EU were employed in high-skilled occupations in Q1 2016, compared to 27% of UK born workers and just 8% of workers born in EU A8 countries.<sup>15</sup>

#### % of workers working at each job-skill level by country of birth, Q1 2016



Note: other EU includes A8 countries, Romania, Bulgaria, Cyprus, Malta and Croatia. Data are not seasonally adjusted.

Source: House of Commons Library analysis of ONS *Labour Force Survey* microdata for January-March 2016

### 3.3 Meeting employer demands

Employment of migrants in lower-skilled jobs is discussed in great detail in a 2014 report by the Migration Advisory Committee, [Migrants in low-skilled work](#). As well as looking at trends in immigration and employment, the report considers the factors contributing to demand for migrant labour in low-skilled occupations in addition to wider economic and social effects resulting from immigration.

The Committee identified several reasons why employers choose to hire migrant workers to low-skilled jobs:<sup>16</sup>

Why do employers recruit migrant workers into low-skilled jobs? In their evidence to the MAC and related research some employers reported the following:

- some British workers applying for low-skilled jobs lack basic numeracy and literacy skills;
- many migrants – particularly East Europeans – have a superior work ethic to British workers. This is stressed particularly by firms offering temporary or seasonal work,

<sup>15</sup> This analysis assigns jobs to different 'skill levels' based on the worker's occupation, following a framework used by the Office for National Statistics. Figures refer to skill level of a person's main job only. See ONS, [Standard Occupational Classification 2010](#), volume 1.

<sup>16</sup> Migration Advisory Committee, [Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK - full report](#), July 2014, p3.

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perhaps in unpleasant conditions with unsocial hours. Employers state that UK workers have very high attrition rates in such jobs;

- many migrants have higher level qualifications than their low-skill job requires;
- on average migrants are superior to British applicants on “soft skills” including reliability, team working and confidence;
- migrants are more flexible than UK-born workers, e.g. much more likely to do shift work;
- migrant workers are more willing to move or live on the site than the domestic workforce which (for obvious reasons) tends to be attached to particular geographic locations: low-skilled British workers are, relative to migrants, less geographically mobile; and
- many British workers, again understandably, will not accept pay rates and conditions that many migrants tolerate.

In their response to our call for evidence, employers were adamant that they do not discriminate on the basis of nationality. Nevertheless, the above factors strongly suggest that some employers have developed a preference for particular groups of workers.

An August 2011 paper from the UK Commission for Employment and Skills (UKCES) looked at the impact of migration on opportunities for low-skilled people in Coventry.<sup>17</sup> It found evidence that migrants, in general, were more flexible in meeting employer demands. For example, migrants were more likely than non-migrant low-skilled workers to work longer hours, at more unsocial hours and in temporary jobs. As a result, employers were offering more temporary jobs, which were not as attractive to native low-skilled workers.

Qualitative research commissioned by the then Department for Business, Innovation and Skills (February 2015) found that “for many businesses the primary impact of migrants was providing additional or complementary skills and filling roles with a shortage of applicants.” It also found business benefits related to migrants sharing knowledge with co-workers, while for some firms the diverse perspectives brought by migrants supported innovation. In some businesses, there were issues around integration of migrant workers and language barriers, which occasionally offset the gains from migrants’ skills.<sup>18</sup>

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<sup>17</sup> UKCES, [The impact of student and migrant employment on opportunities for low skilled people](#), August 2011.

<sup>18</sup> BIS, [The impacts of migrant workers on UK businesses](#), February 2015.

## 4. Public finances

Existing research on the impact of immigration on the public finances generally suggests the overall effect is small. Studies indicate differing impacts for migrants from inside and outside the EU, and for recent migrants compared to those who have been in the UK for longer.

Such research depends on various key assumptions. For instance, should spending on services for children born to one migrant parent and a UK-born parent be counted as spending on the non-migrant 'native' population or on the immigrant population? Other considerations include the allocation of items of public spending between the native and immigrant populations (for example, how to treat spending on transport or debt interest), any possible displacement of UK-born workers, and if immigrants use public services differently to natives.<sup>19</sup>

Dustmann and Frattini (2014) found that over the period 1995 to 2011, immigrants from countries in the European Economic Area (EEA)<sup>20</sup> contributed more to the public finances than they received in benefits and transfers. Both the native population and immigrants from non-EEA countries, on the other hand, made a negative net contribution.<sup>21</sup> Migration Watch, a think tank, has criticised the headline figures presented by the authors as "the best case scenarios" and argues that revenues from recent migrants (those arrived in the UK since 2000) are lower under alternative methodologies.<sup>22</sup> Rowthorn (2014) considered Migration Watch's criticisms of an earlier working paper. He concluded that "depending on the method of estimation, recent EEA migrants to the UK have either paid their way or generated a modest surplus", but pointed out the aggregate effect is still very small as a share of GDP.<sup>23</sup>

OECD estimates for 2007-2009 suggest that in aggregate, immigrants' net fiscal contribution was between -0.26% and +0.46% of GDP. The estimates depend on which items of public spending (e.g. transport, policing, debt interest) are counted as shared between the native and immigrant population.<sup>24</sup>

The Office for Budget Responsibility (OBR), in its annual [Fiscal Sustainability Report](#), published July 2015, considered the impact of migration on the long-term sustainability of UK public finances. Higher net migration scenarios are estimated to lead to lower debt due to the assumption that immigrants are more likely to be of working age than

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<sup>19</sup> The Migration Observatory, University of Oxford, [The fiscal impact of immigration in the UK](#), March 2015.

<sup>20</sup> The EEA currently comprises the 28 EU member states as well as Iceland, Lichtenstein and Norway.

<sup>21</sup> Dustmann, C. and Frattini, T., [The Fiscal Effects of Immigration to the UK](#), 2014.

<sup>22</sup> Migration Watch, [Response to UCL paper on the fiscal effects of immigration to the UK](#), December 2014.

<sup>23</sup> Rowthorn, R., [The Costs and Benefits of Large-scale immigration: Exploring the economic and demographic consequences for the UK](#), December 2015.

<sup>24</sup> OECD, [International Migration Outlook 2013](#), Chapter 3: The fiscal impact of immigration in OECD countries, June 2013.

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the existing UK population, meaning they are likely to boost tax receipts without adding much to age-related spending.<sup>25</sup>

The OBR projections use a baseline scenario of net inward migration of 165,000 per year, in which public sector net debt is projected to reach 87% of GDP in 2064/65.<sup>26</sup> Under a “high migration scenario” (net inward migration of 225,000 per year), public sector net debt as a percentage of GDP would be 17% points lower in 2064/65 relative to this baseline. On the other hand, in a “low migration scenario” (net inward migration of 105,000 per year), net debt as a percentage of GDP is projected to be 20% points higher than the baseline.<sup>27</sup>

These projections predate the referendum vote for the UK to leave the European Union. In any case, calculations looking this far into the future are highly uncertain. Small changes in the underlying assumptions can have extremely large effects over the long term.

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<sup>25</sup> OBR, [Fiscal Sustainability Report, July 2015](#), pp91-3

<sup>26</sup> Net inward migration to the UK was 336,000 in the year ending June 2015 and 254,000 in the year ending June 2014 (source: ONS, [Migration Statistics Quarterly Report, November 2015](#)).

<sup>27</sup> Projections are based on old OBR forecasts from March 2014. These forecasts have since been updated.



## 5. Public services

It is extremely difficult to accurately quantify the impacts of migration on public services, principally because the migrant status of people who use or contribute to public services is not widely recorded. Migrants may use public services and claim some benefits; they may also pay taxes or be employed in providing public services. Establishing the net impact of immigration across all public services in the UK requires taking all of the potential costs and benefits into account.

In a report published in 2011, the Oxford Migration Observatory listed a lack of systematic data on the impact of migration on public services as one of the top ten problems in the evidence base for public debate and policy-making on immigration in the UK. The Observatory said:

The lack of systematic evidence on migrants' use of public services is mainly due to the fact that immigration status is recorded inconsistently (or not at all) when public services are provided. There is, for example, no systematic data on the number of migrants, let alone migrants with different types of immigration status, that make use of particular types of health services. We also have very limited information on the number of migrants' children in UK school because enrolment data do not record nationality, country of birth, or immigration status. The closest estimates of migrant children in UK schools are based on data on the number of children receiving support for learning English as an Additional Language (EAL) at schools in England only. EAL status is self-reported and is an indicator of when English is not the first language spoken at home. It thus includes children born in the UK but who do not speak English at home. It also fails to capture children who are migrants but speak English at home. In the absence of systematic data and evidence, much of the debate is based on anecdotal evidence provided by service providers and other stakeholders.

In addition to the taxes they pay, migrants contribute to the provision of public services in at least two specific ways that have not yet been analysed adequately. First, they can provide skills that are currently not available or in short supply in the UK. Second, the employment of migrants facilitates the provision of public services at a cost that is lower than would be the case if those services were dependent solely on the supply of British workers. Immigration is thus a form of "subsidy" to public services that benefits service providers, consumers and the taxpayer. Potential adverse impacts of this subsidy include downward pressures on wages (or at least wage growth) of British workers employed in public services. They also include, in some low-waged sectors such as social care, an increasing reliance on and entrenchment of low-cost service provision.<sup>28</sup>

The Migration Advisory Committee (MAC), which advises the government on immigration issues, drew attention to the limited nature of the available data on the public service impacts of migration in its 2012 [Analysis of the impacts of migration](#).

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<sup>28</sup> [Top Ten Problems in the Evidence Base for Public Debate and Policy-Making on Immigration in the UK](#), Oxford Migration Observatory, 2011

In an effort to “expand and develop the existing knowledge base and debate around the public service and social impacts of migration” the MAC commissioned six research reports on the impact of migration on different areas of service provision, including crime and victimisation, education and children’s services, health and social care, housing, transport, and integration. The results of these research reports are summarised in Chapter 5 of the MAC report on “Public service and social impacts” (pages 73-96), while the individual research reports can be downloaded separately from the [report website](#).

In particular, the research report on the [consumption of public services](#), produced by the National Institute of Economic and Social Research (NIESR), attempted to quantify the cost per adult of providing public services to migrants and non-migrants based on their demographic characteristics. This found that the cost per adult of providing health and social services was lower for migrants than non-migrants, while the cost of providing education was higher for migrants than non-migrants (although it was lower for more recent migrants who had arrived in the last five years). The table below summarises the results of this study.

#### **Estimated cost of the consumption of UK public services by various sub-groups of the migrant population in the UK**

	<b>£ consumption per adult migrant per year, 2009/10 prices</b>		
	Education services	Personal social services	Health services
Non-migrants	1,662	720	2,765
All migrants	2,216	708	2,450
Migrants arrived in last 5 years	1,403	508	1,717
Non-EEA economic migrants	1,695	540	1,757
Tier 1 and Tier 2 migrants	1,676	544	1,734

Notes: The definitions of Tier 1 and 2 migrants are wide in that they include those migrants with partners from whom they could have derived the right to work in the UK. The monetary values reported are only approximations and are based on a range of assumptions that may not always hold in reality. The estimates reported may be useful to policymakers in as far as they may provide an order of magnitude of the impacts of migration across various modes of transport. They are subject to considerable ranges of uncertainty. Source: Migration Advisory Committee, [Analysis of the Impacts of Migration](#), January 2012, Table 5.2

However, the MAC were careful to draw attention to the limitations of these findings in their report.

Because of the range of assumptions made in calculating these monetary estimates, we would strongly recommend that none of them is considered fully accurate or interpreted as being the final word on the impact of non-EEA migration on the consumption of health, social care and education-related services. Furthermore, as these estimates are based on a static analysis that does not consider the cost of consumption over an individual’s lifetime, their use in forward-looking analyses of the impacts of migration will be limited.

One of the central assumptions of NIESR’s research is that “migrants and non-migrants consumption patterns are identical once allowance

has been made for these demographic differences.” The researchers acknowledged that “Whilst it would be preferable to adjust for a wide range of factors, this is precluded by data limitations. However, the approach improves on estimates based on migrant numbers alone.”

In other words, any systematic differences in the way that migrants consume public services (other than those due to their demographic characteristics) would not be captured by this method. The authors note that these differences could increase or reduce the estimated cost of providing public services to migrants.

Finally, as the Oxford Migration Observatory notes above, in addition to consuming public services migrants contribute to the provision of public services as employees. For example, there were around 129,000 foreign nationals working in NHS Hospital and Community Health Services in England as at 31 March 2016, which was around 22% of staff whose nationality was known. Of these, around 27,000 were doctors, which was 26% of doctors whose nationality was known.<sup>29</sup>

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<sup>29</sup> NHS, [HSCIC Nationality by staff group: March 2016](#)

## 6. Living standards

In terms of overall benefit to the economy, there is much debate as to how this should be measured. Using simple change to overall economic output (GDP) does not take into account the change in living standards of individuals. Instead, it simply reflects the fact there are more people in the economy as a result of immigration, producing more output. To take this into account, one can use GDP per capita instead. Although by no means a perfect measure, it does at least give some idea of the proportionate per capita change in economic output.

Most of the evidence on GDP per capita predates the economic downturn. However, as discussed above, economic impacts of immigration appear to differ between periods when the economy is strong and periods of weaker economic performance and impacts vary by characteristics of migrants.

Evidence from the previous Labour Government to the House of Lords Economic Affairs Committee 2008 inquiry, *The Economic Impact of Immigration*, estimated that migration contributed 0.15% per year to the GDP per capita of the native population in the decade to 2006.<sup>30</sup> The Lords Committee concluded that “the economic benefits to the resident population of net immigration are small”. Responding, the then Government stated that any effect would necessarily not be very large given the relatively small change to the overall working population resulting from net immigration in a given year.<sup>31</sup> It also stated that the 0.15% figure was not as small as the Lords Committee believed, arguing that in the context of economic growth rates it was quite substantial.

It is worth noting that these average figures disguise enormous variation. Young, highly skilled, employed immigrants without dependants, who do not tend to save their income or send it home, are likely to make a larger “contribution” in these crude terms than other types of immigrant. The Lords Committee also identified those it believed were economic winners (the migrants and their UK employers) and losers (those in low-paid jobs directly competing with migrants) from immigration.<sup>32</sup>

Research published in 2011 by the NIESR looked at the impact in the UK of migration between 2004 and 2009 from the A8 Eastern European countries that acceded to the EU in 2004.<sup>33</sup> After adjusting for the age structure and the educational level of the migrants, the study found that

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<sup>30</sup> House of Lords Select Committee on Economic Affairs, [The Economic Impact of Immigration](#), 1 April 2008, HL 82-I, 2007-08.

<sup>31</sup> [Government response](#) to House of Lords Select Committee on Economic Affairs report on *The Economic Impact of Immigration*, June 2008, Cm7414.

<sup>32</sup> Lords Committee, op cit, page 32, para 97.

<sup>33</sup> NIESR Discussion Paper 379, [Labour mobility within the EU - impact of enlargement and transitional arrangements](#), August 2011.

there was a small but positive impact on the UK's GDP per capita of around 0.2% in the long run.<sup>34</sup>

Subsequent NIESR research (2014) modelled the long-run impact of reducing net inward migration to the UK from a baseline scenario of 200,000 to just below 100,000. It estimated that GDP per capita would be 2.7% lower by 2060 in the lower migration scenario, although clearly estimates looking this far ahead are highly uncertain and are very sensitive to changes in the underlying assumptions.<sup>35</sup>

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<sup>34</sup> In one scenario, described as "an extreme position" by the authors, where migrant productivity is only one-fifth that of the resident workforce, the impact on long-run GDP per capita was negative at -0.13% in the UK.

<sup>35</sup> Lisenkova, K., Mérette, M. and Sánchez-Martinez, M., [The long-term economic impact of reducing migration in the UK](#), August 2014.

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