in brief...

Growth and immigration: unpicking the confusion

More people in a country leads to a bigger economy, but not necessarily an improved standard of living. **Alan Manning** unpicks the complexities in the debate.

Much comment on the relationship between immigration and growth is deeply confused. The root of the confusion is what we mean by "growth". Growth might mean an increase in gross domestic product (GDP), the total amount of goods and services produced in the economy. Because immigration means more people and more people means a bigger economy, immigration almost certainly increases growth in this sense.

But we normally think of growth as being desirable because it represents an improvement in the material standard of living in the country. Then, GDP per capita (per person) is a much better measure of growth and the relationship between immigration and growth is more complicated, as immigration raises GDP but also the capita bit of the formula.

The confusion over the link between growth and immigration is not new. A House of Lords economic affairs committee report from 2008 criticised the government for using the impact of immigration on GDP rather than GDP per capita in its analysis. With the benefit of hindsight, the garbled economics of immigration of the government at that time was one reason it got into trouble over immigration (the others being naïve visa design and a failure to monitor what was happening).

Before the pandemic disrupted the economy, UK GDP per capita was about £33,700. An extra immigrant will raise GDP per capita if their contribution is above this figure, and reduce it if its below. Using this measure, immigration is no longer necessarily pro-growth: it depends. Assessing the contribution of migrants to GDP is critical for determining whether more open immigration rules raise or reduce GDP per capita.

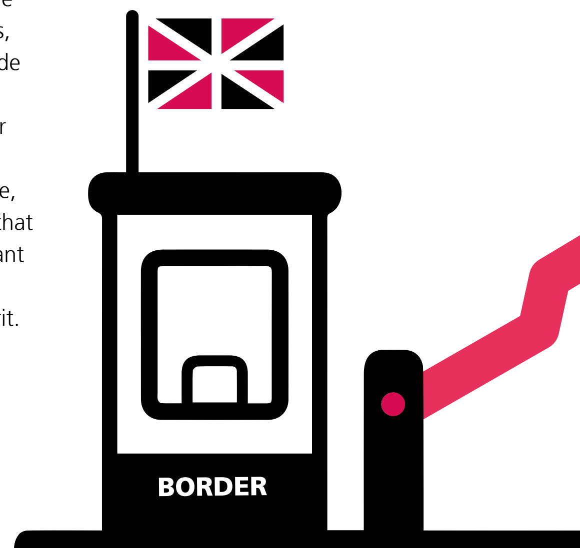
One contribution of immigration to GDP is the earnings of the migrants themselves. But their work also generates profits; labour income is about 60% of total income, meaning that 60p in earnings generates £1 in GDP on average. If a migrant's earnings generate the same profit per pound as the average, this would mean that any single migrant earning above £20,000 would raise GDP per capita.

The lowest visa salary thresholds are currently slightly above this level. But if the migrant has a non-working partner and child, they would have to earn over £60,000 to raise UK GDP per capita. Rules on rights to bring dependents, rarely discussed, make a big difference to the impact of immigration on GDP per capita.

But perhaps there are other effects on GDP per capita beyond the migrant and their employer. These effects might be positive or negative. As more immigration means faster labour force growth, some investment has to be directed to equipping the new workers with capital. If investment as a whole does not increase sufficiently, this means lower investment per worker in other jobs, which means lower GDP per capita.

On the other hand, there is good evidence that higher-skilled migrants lead to more innovation, which is the underlying basis for productivity growth. Some studies also claim that there are positive general effects on the productivity of all migrants, not just the higher-skilled (Portes, 2018). The magnitude of the impacts in these studies are, for me, beyond what is credible. For example, some studies imply that the average immigrant is 2.5 times more productive than a Brit.

Settlement rules matter for the impact of immigration on economic growth



Also sowing confusion is a theoretical result in the economics of immigration; what is known as the "immigration surplus" result (Borjas, 1995). This says that in competitive markets, immigration of any type raises the average income of the locals if the skill mix of migrants and locals differs.

There are two problems with the way this result is commonly interpreted. First, the impact works through changes in wages and prices. If, as the evidence suggests is the case, these do not change very much, if at all, with immigration, then the predicted benefits are small.

Second and more importantly, the growth measure being used is the GDP per capita of the locals only; it is as if the migrants themselves count for nothing. It is a country like the United Arab Emirates (UAE) that probably comes closest to what this theoretical model would say is desirable. If the UAE is not your preferred model of the good society, don't cite these results.

The effects of migration on GDP per capita may be more positive in the short run than in the long run. Initially, the migrants are on work permits: they have to work. But if they settle, some will end up out of work (just like everyone else) and will eventually retire. So settlement rules, again rarely discussed, matter for the impact of immigration on growth.

Productivity per hour worked is another measure of growth we might be interested in. The UK has a well-known problem with productivity: growth has been very weak since the global financial crisis and we lag behind our competitors. We might want an immigration policy to raise productivity per hour worked. That would lead to a more restrictive immigration policy than one that focused on current GDP per capita, as one now has to compare working migrants with working locals, not all locals.

GDP

So, the relationship between immigration and growth is likely to be far more complicated than widely assumed. In 2020, the final migration advisory committee report produced when I was chair tried to estimate the likely impacts of different migration rules on the growth outcomes described here.

Those estimates were based on assumptions that are not beyond criticism. But the bottom line was that the impact of a well-chosen immigration policy on growth was very small unless one focused on total GDP, which is the wrong measure. For high-skilled immigrants, it is likely that GDP per capita is raised, but for lower-skilled immigrants it is much more debatable. And a lot of the current discussion is about reducing restrictions on immigration to address labour shortages in sectors like agriculture and hospitality, where productivity and salaries are low.

I have discussed the impact of immigration on UK growth alone. But perhaps we should take a global perspective. There is little doubt that immigration from lower-income countries to higher-income ones (like the UK) raises global GDP per capita even if it reduces GDP per capita in the UK. That is a strong reason to look to find ways to be open to immigration. But we need to be aware that most of the benefits go to the migrants themselves, and that some controls are needed to avoid harm to some of the locals.

Pretending there is a strong case that immigration always raises growth in the local economy may be in a good cause, but when that case is exaggerated, it runs the risk of undermining public confidence in the immigration system, something that tends to lead ultimately to more restrictive policies.

If public confidence in the immigration system is undermined, restrictive policies become more likely

This article is based on a piece originally published on the *LSE British Politics and Policy* blog in October 2022 (https://blogs.lse.ac.uk/politicsandpolicy/the-link-between-growth-and-immigration-unpicking-the-confusion/).

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Further reading

George Borjas (1995) 'The Economic Benefits from Immigration', *Journal of Economic Perspectives* 9(2): 3-22.

House of Lords Economic Affairs Committee (2008) 'Economic Affairs – First Report'.

Jonathan Portes (2018) 'New Evidence on the Economics of Immigration to the UK', *VoxEU*.

Migration Advisory Committee (2020) 'A Point-Based System and Salary Thresholds for Immigration'.