PAPER EA039

CENTRE for ECONOMIC PERFORMANCE

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

ELECTION ANALYSES SERIES

A series of background briefings on the policy issues in the June 2017 UK General Election

#GE2017Economists

Immigration and the UK Economy

Jonathan Wadsworth

CENTRE *for* ECONOMIC PERFORMANCE

CEP ELECTION ANALYSIS

Immigration and the UK economy

Jonathan Wadsworth

Immigration is once again a key issue in the election campaign. This briefing outlines the current facts on immigration and its effects on the UK – and discusses immigration policy options for the parties in the light of Brexit.

- There are now 9 million individuals (7.4 million adults of working age) in the UK who were born abroad, twice the number 20 years ago. The number of immigrants from EU countries has tripled from 0.9 million to 3.3 million over the past 20 years.

- Much of the recent falls in net immigration are driven either by a rise in emigration or a fall in the number of Britons returning to the UK – things over which the government has very little control.

- Many people worry that immigration may reduce the pay and job prospects of the UK-born since this means more competition for jobs. But immigrants consume goods and services. This will raise overall demand and help create more employment opportunities. Immigrants may have skills that complement those of UK-born workers, which can also raise demand. We need empirical evidence to settle the issue of the economic impact of immigration on the UK-born.

- The latest evidence suggests that neither immigration as a whole nor EU immigration has had significantly large negative effects on employment, wages and wage inequality for the UK-born population. Nor, it should be said, have there been large positive effects.

- Immigrants *do not* take most new jobs. The immigrant share in new jobs is – and always has been – broadly the same as the share of immigrants in the working age population.

- Areas of the UK with large increases in total or EU immigration have *not* experienced greater falls in either jobs or pay of UK-born workers. The big falls in wages observed after 2008 are more closely associated with the fallout from the global financial crisis than immigration.

- There is little effect of immigration on inequality and the relative pay and job prospects of less skilled UK workers. Changes in wages and joblessness for less educated UK-born workers show little association with changes in immigration.

- Immigrants pay more in taxes than they take out in welfare and use of public services. UK-born individuals, on average, take out more in welfare and benefits than they pay in taxes. So immigrants help to reduce the budget deficit. There is little evidence that immigrants have negative effects on crime, education, health or social housing.

- The parties go into the election all promising to manage migration. Brexit will force the next government into big but, as yet, unaddressed decisions about immigration from the EU on how much and what groups to control.

Centre for Economic Performance
London School of Economics and Political Science
Houghton Street, London WC2A 2AE, UK
Web: http://cep.lse.ac.uk CEP on Twitter: @CEP_LSE

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Immigration to the UK: some facts

Immigration to the UK has grown a lot over the last 20 years and a significant fraction of this growth has been from other EU countries, especially after 2004 and the accession of the eight East European countries ('A8'). There are now around 9 million individuals (and 7.4 million adults of working age) living in the UK who were born abroad. The number of immigrants from EU countries living in the UK has tripled from 0.9 million to 3.3 million over this period.

In the 2016 referendum debate, a major argument of the Leave campaign was that Brexit would allow more control over the flow of immigrants to the UK from the EU. Many people continue to be concerned that high levels of immigration have hurt their jobs, wages and quality of life. Higher immigration has increased overall national income (more workers will generate more GDP) and benefited the immigrants who have come to the UK since, by and large, they are better off than in their country of origin. But has it been harmful to people born in the UK?

Trends in immigration over time

Immigration has undoubtedly increased the UK population a lot over the past 20 years. But this is not an unprecedented rise. Between 1975 and 1990, the UK working age population grew by around 200,000 a year, on average. This was driven not by immigration, but by a rise in the numbers of UK-born, as baby boomers reached maturity. Between 1995 and 2016 the working age population also grew by around 200,000 a year. The majority of this later growth was due to immigration. Nearly 18% of the UK working age population are now immigrants, more than double the share 20 years ago.

Table 1: Immigrants in the UK

	Total (millions)	UK-born (millions)	Immigrant (millions)	Immigrant share (percentage)	of which EU (millions)
Total					
1975	55.3	52.1	3.2	5.8%	0.9
1990	56.4	53.0	3.5	6.1%	1.1
1995	57.2	53.3	3.8	6.7%	1.1
2016	64.6	55.6	9.0	14.1%	3.5
Working age					
1975	33.6	31.2	2.5	7.3%	0.7
1990	36.4	33.7	2.7	7.5%	0.8
1995	36.4	33.4	3.0	8.2%	0.8
2016	41.0	33.6	7.4	17.9%	2.5

Source: CEP analysis of Labour Force Survey. Working age population is all aged 16-64.

But the UK is not very different from many other OECD countries with regard to its share of immigrants or with regard to the rate of new migrant inflows. The UK is, and has been for some time, a middle ranking country in terms of foreign-born population share (OECD 2016).[1] But according to regular opinion polling, immigration (and Brexit) alongside the NHS continue to be at the forefront of the public's concerns, (IPSOS/MORI, 2017) so it is important to try and assess the evidence on immigration's effects in the labour market and in the wider economy.

[1] For international comparison of inflows across countries see OECD (2016) http://www.oecd-ilibrary.org/docserver/download/8116101e.pdf?expires=1482154921&id=id&accname=ocid71015720&checksum=1ADB280C3559BA80608AC93D389DDF14.

Who migrates to the UK?

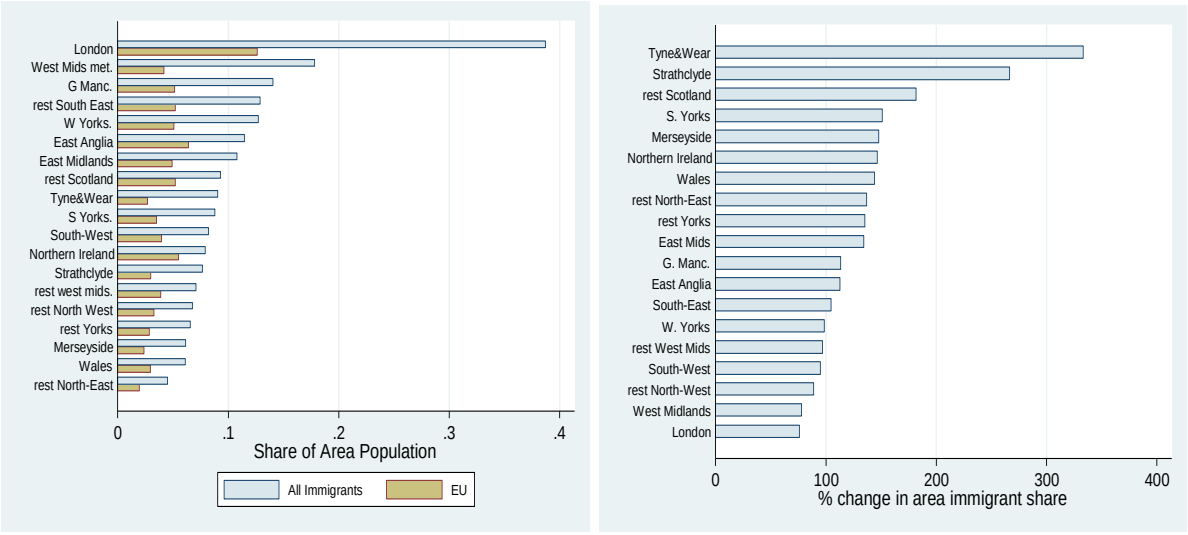
After the A8 countries joined the EU in 2004, immigration to the UK rose significantly, then fell back during the recession from 2008 and resumed thereafter. By 2016, there were around 3.3 million EU immigrants living in the UK, up from 0.9 million in 1995 - a rise to 5.3% of the population from 1.5%. Around 2.5 million of these migrants are aged 16-64 and 2 million are in work. EU countries now account for 35% of all immigrants living in the UK. These populations reflect the changing history and patterns of immigration to the UK over the last 70 years. Poland is now the largest source country of immigrants – at around 940,000 – followed by India (750,000). Lithuania supplies most migrants per head of its own population (180,000 immigrants in the UK or around 6% of Lithuania's population).

Immigration patterns within the UK

London has long had more immigrants than the rest of the country (see Figure 1, panel 1). Almost 40% of London's population was born abroad. More than a third (37%) of all migrants to the UK live in London compared with only 11% of UK-born. Under 5% of the population of the North-East (not Tyne and Wear) were born abroad. Migrants from the EU are more evenly distributed across the UK, though again London accounts for the largest fraction of EU migrants.

The pace of change in immigration across areas of the UK is quite different, (see Figure 1, panel 2). Immigration has grown proportionately more in areas with relatively little experience of immigration. It may be that the rate of growth of immigration, even when the numbers of immigrants are low, helps shapes people's perceptions about the effects of immigration.

Figure 1: **Share of immigrants in regional populations, 2016**



*Source***:** CEP analysis of Labour Force Survey.

Immigrants are, on average, more educated than the UK-born (see Table 2) – almost twice as many immigrants have some form of higher education (46% compared with 24% UK-born). Only 18% of immigrants left school at 16 compared with 43% of the UK-born.

Table 2: Education attainment and immigrant status (working age population) 2016

Age left education	UK-born	EU immigrants	A8 immigrants	All immigrants
High (21 or older)	24%	45%	38%	46%
Medium (17-20)	33%	42%	53%	36%
Low (16 or under)	43%	13%	8%	18%

Notes: The A8 countries are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, all of which joined the EU in 2004. Working age population is all aged 16 to 64.
Source: CEP analysis of Labour Force Survey.

Evidence on immigration's effects: jobs and wages

About 70% of EU immigrants say they come to the UK because of work-related reasons, as opposed to study or joining their families (ONS, 2016). Since immigration increases the total number of people in work or looking for employment, does that mean that UK workers *must* have been harmed by this increased competition for jobs?

The short answer is 'no'. There could be some disadvantages from immigration only if the total number of jobs were fixed and then only where immigrants compete for a particular type of job. But since immigrants also consume local services and goods, this increases demand and so raises job prospects for all who produce those goods and services. Another way to think about this is that over the last 100 years, the UK population has grown by around 50% but the unemployment rate has not trended inexorably upward.

But even if there is no reason to think that immigration should increase unemployment, shouldn't an increase in the supply of workers drive wages down? Not necessarily. Any downward supply effects on wages could be offset by upward pressure on wages from increased demand that a rising population brings. In addition, greater movement of labour allows countries and individuals to specialise in what they are best at, just like increased trade. Firms will change the mix of their products to account for the new skills available to them. Immigrants, especially if they are more skilled, can boost productivity. All these effects will tend to *increase* wages.

Consequently, the impact of immigration on UK-born workers is an empirical question and not a foregone conclusion. We need to look at data for evidence.

Table 3 shows that EU immigrants are not only more educated, they are also more likely to be in work (78%) than UK-born individuals (72.3%) and less likely to be unemployed or economically inactive. This is particularly true of A8 immigrants: more than 80% of them are in work. Immigrants as a whole are less likely to be in work than the UK–born. This is driven by low levels of labour market participation of women from certain non-EU countries.

Table 3: Employment, unemployment, students and economic inactivity by immigrant status (working age population) 2016

	UK-born	EU immigrants	A8	All immigrants
Percentage of whom:				
Employed	72.3%	78.0%	80.1%	70.7%
Unemployed	3.3%	3.2%	2.5%	3.9%
Student	8.3%	6.4%	5.8%	7.6%
Inactive	16.2%	12.4%	11.6%	17.8%

Source: CEP analysis of Labour Force Survey.

Immigrants are typically younger. Among the working age population, the average age of the UK-born is 40, the average western EU immigrant is 38 and the average A8 immigrant is 34.

Education partly determines the occupations and industries in which an individual will work. In addition there are restrictions on sectors and occupations in which non-EU migrants can work. Immigrants make up 17% of the employed workforce. There is a larger than average share of immigrants in professional occupations. But there are also more immigrants than average in processing and elementary occupations (such as cleaning and bar work). This is also higher than might be expected given their qualifications, particularly for EU migrants. According to the Labour Force Survey 45% of the 250,000 working in 'elementary processing' (SOC code 913) are immigrants (30% of the workforce is from the EU). Similarly, nearly one third of science professionals (SOC code 211) are immigrants. Sectors that employ these workers will be most under pressure from any attempts to reduce immigration.

This occupational mix of migrants in both high-skilled and less skilled jobs is reflected in the distribution of immigrants across industries. The health, hotel and restaurant sectors employ more migrants than other sectors, particularly A8 migrants. The energy, agriculture and public administration sectors employ relatively fewer migrant workers (see Table 4). Graduates from the EU account for most EU workers in finance, science and information technology (around 5% of those sectors' workforces). Non-graduates comprise the majority of the EU workforce in the manufacturing and hotel sectors (around 7 and 10% respectively).

Table 4: Occupational distribution of immigrants and UK-born, 2016

	Percentage of UK-born	Percentage of immigrants	Percentage of EU immigrants	Percentage of occupation who are immigrants	Percentage of occupation who are EU immigrants
Managerial	11.0%	9.4%	6.9%	15.0%	4.7%
Professional	20.0%	22.9%	18.2%	19.2 %	6.5%
Assistant professional	14.4%	11.6%	10.9%	14.3%	5.7%
Administrative	10.9%	7.2%	6.5%	11.9%	4.6%
Skilled trades	11.1%	9.3%	12.2%	14.7%	8.2%
Personal service	9.3%	8.8%	7.8%	16.4%	6.2%
Sales	8.1%	6.2%	5.6%	13.7%	5.3%
Processing	5.8%	9.1%	11.0%	24.5%	12.7%
Elementary	9.5%	15.7%	20.9%	25.5%	14.5%

Source: Labour Force Survey.

There is a huge amount of research examining the effect of immigration on jobs and wages (summarised in Wadsworth, 2015; Portes, 2016a, 2016b; Centre for European Reform, 2016; and Dustmann et al, 2005, among others). The conclusion of this research is that the large increase in immigration in the UK has *not* significantly harmed the job and wage prospects of UK-born workers. Most of this work, however, was conducted prior to the global financial crisis and the Eurozone crisis. So it is reasonable to ask whether these findings have changed after the most severe economic downturn for 80 years and a continued rise in immigration.

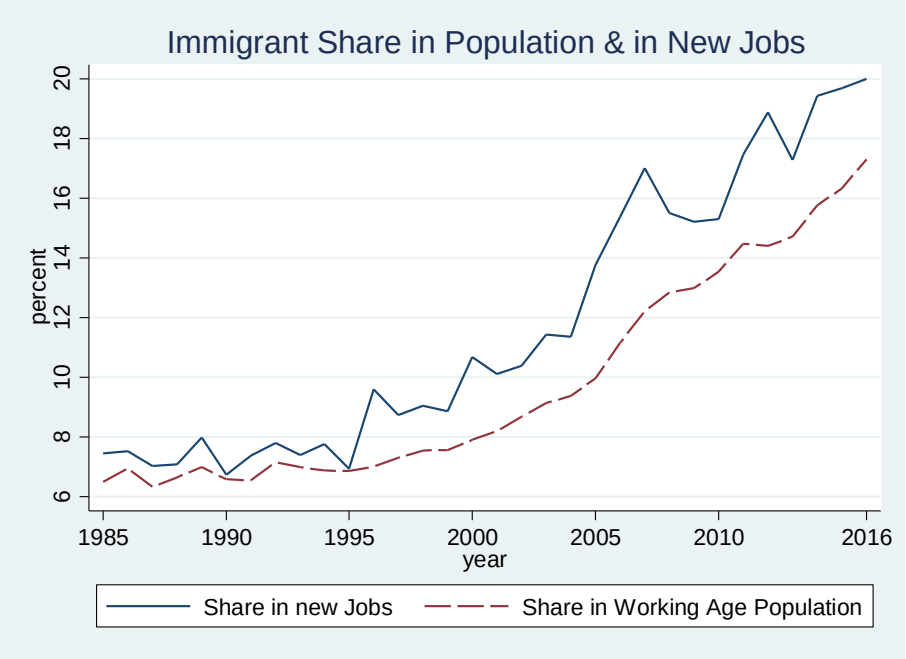
Immigrants and new jobs

It is sometimes said – wrongly - that immigrants are taking a majority of all the new jobs generated. This is based on a misinterpretation of *net* changes in aggregate employment data (which is the difference between all jobs created and all jobs lost in any year). Immigrants in recent years have accounted for the majority of the net change in employment. Net employment grew by around 500,000 in 2016 and immigrant employment by around 300,000 – but this net change is the difference between, approximately, 4 million new jobs being created and 3.5 million jobs being lost.

When the immigrant working age population is rising faster than that of other groups, the number of immigrants in work will tend to grow faster (just as the numbers of women or people with freckles in work would grow if their respective populations increased and that of others stayed static). To look at who gets new jobs we need to look at evidence on *hiring*.

Figure 2 shows that the actual immigrant *share* in new jobs (the share of immigrants in jobs that are three months old or less) is – and always has been – broadly the same as the share of immigrants in the working age population. (It is a little higher partly because immigrants tend to be younger and job turnover is higher among the young). So immigrants account for around one in five of all new hires.

Figure 2: Immigrant share in new jobs



Source: Labour Force Survey.

Is immigration correlated with changes in joblessness and wages?

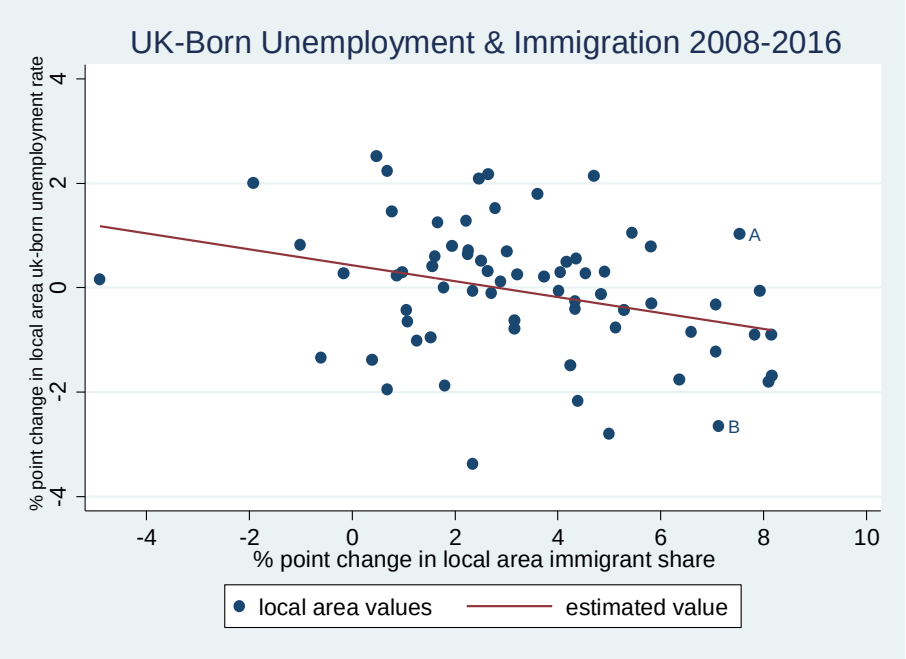
The fact that immigrants are more educated would suggest that, if anything, they put downward pressure on the wages of higher wage people, thus reducing inequality. But there is concern that less skilled workers are hurt if educated immigrants are willing to accept low paying jobs (Migration Advisory Committee, 2014). A third of EU nationals are in the relatively low skilled 'elementary and processing occupations' compared with 15% of the UK-born in work. Given that immigrants are more highly educated, this may be because they are not using their skills fully. But it may also reflect the fact that they are younger and so less likely to be in more senior managerial and professional roles.

The most straightforward way to investigate this issue is to examine whether areas of the UK that have had larger influxes of immigrants have also had worse job and wage outcomes for the UK-born relative to other areas. Looking at the change over time controls for lots of other features of the local labour market that could also explain unemployment and wages in those areas.[2]

Figure 3 graphs changes in the unemployment rates of the UK-born across local areas against changes in immigration between 2008 and 2016 (one dot for each of 69 counties). The solid red line summarises the relationship between immigration and UK-born unemployment rates. If immigration increased unemployment, we would expect a strong *upward* sloping line: more immigrants would mean more unemployment for local workers. It is clear from the graph that there is no positive relationship between immigration and unemployment rates of those born in the UK. If anything, the relationship is negative, suggesting areas with more immigration experienced larger falls in unemployment for the UK-born over this period.

[2] The analysis in this section uses immigration but if done using EU immigration the results are essentially the same. Results available on request.

Figure 3: Unemployment rates of UK-born and immigration

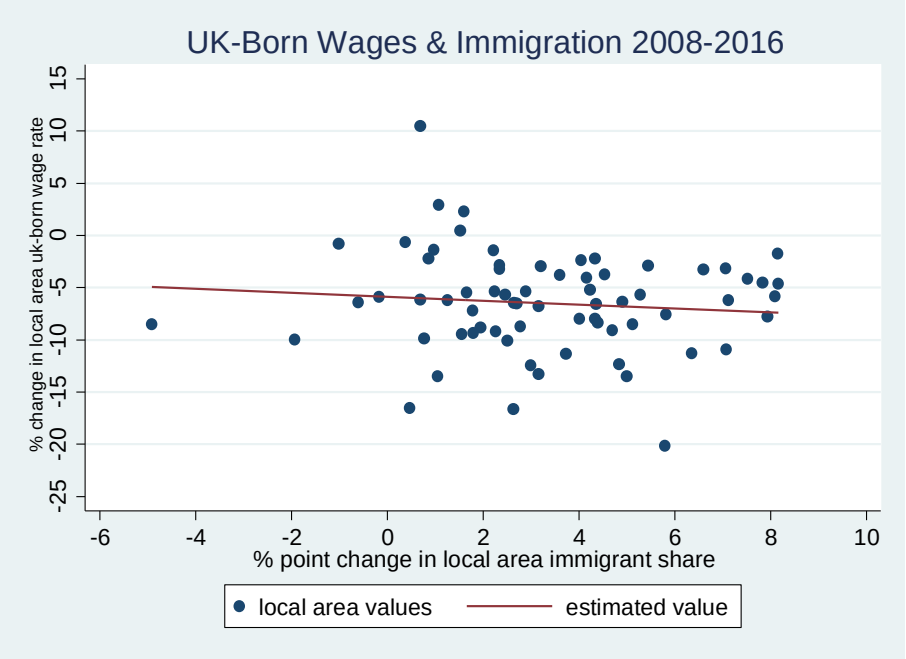


Notes: Each dot represents a UK local area. The solid line is the predicted 'best fit' from a regression of changes in unemployment on the change in share of immigrants in each UK local area. These are weighted by the sample population in each area.
Source: CEP analysis of Labour Force Survey.

So why do some people think immigration has hurt jobs? Look at two areas – dots A and B in Figure 2. Both have had increases in the immigrant share well above the national average for this period. In area A, unemployment for the UK-born has risen by over 1 percentage point, which is also above the national average. So in area A, it feels like immigrants are bad for jobs. But area B has had a similar increase in immigration, while unemployment here has fallen by 2 percentage points. Therefore, just because immigration and unemployment both go up in an area does not mean that immigration is the reason for rising unemployment, since it is quite easy to find areas where immigration went up and unemployment fell. Something else must underlie the prospects of UK-born individuals in areas with rising unemployment.

Figure 4 provides the same analysis of the impact of immigration on pay. Again, there is no apparent link between changes in the real wages of UK nationals and changes in immigration. Wages of UK-born workers changed at much the same rate in areas with high immigration as in areas where the change in immigration was low.

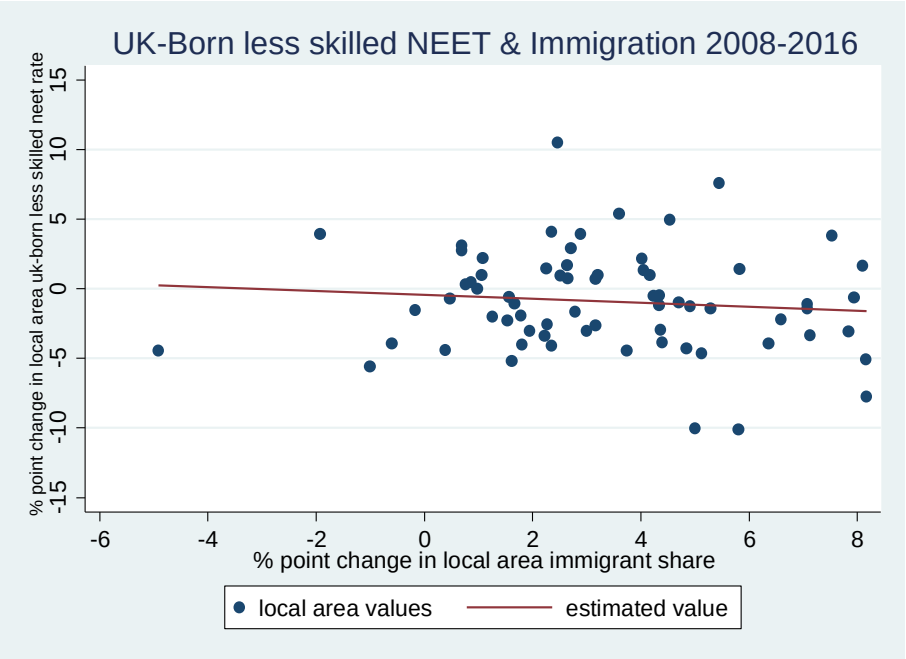
Figure 4: Wages of UK-born and immigration



Notes. See Figure 3. *Source*: CEP analysis of Labour Force Survey.

To see if employment and wage prospects for *less skilled* UK nationals are associated with immigration, Figure 5 looks at the change in the NEET rate ('not in education, employment or training') for low skilled UK-born, defined as those who left school at the minimum leaving age or younger. There is again no effect of immigration on their job prospects.

Figure 5: *NEET* rates for less skilled UK-born and immigration



Notes. See Figure 3. *Source***:** CEP analysis of Labour Force Survey.

One group that *does* seem to lose out from new immigration is the stock of other recent arrivals (Manacorda et al, 2011). So although there is no negative effect on UK-born workers, there might be some depressing effects on other immigrants who settled in the UK a few years back.

There are studies that do find negative wage effects of immigration (notably Dustmann et al, 2013; and Nickell and Saleheen, 2015, for the UK). However these effects are very small (in the order of 1% lower wages). Taking the evidence as a whole, it is hard to conclude that immigration effects in the UK are anything other than very small either way.

The impact of EU immigration on public finances and public services

An important part of the immigration debate is its fiscal impact on the public finances. Do immigrants pay their way? For any immigrant who arrives as an adult, public expenditure will be lower since UK taxpayers have not had to finance their schooling and healthcare costs as they would do for a UK-born individual. Second, immigrants are younger, more likely to work and less likely to be on benefits. While immigrants, like UK nationals, would not be eligible for contributory-related benefits until they have worked full-time for two years, they could be eligible for means-tested benefits should they apply. HMRC estimates that around 6% of tax credit claims are from households that include an EU national in line with the share of EU nationals in the UK (House of Commons, 2014).

Dustmann and Frattini (2014) find that EU immigrants made a positive fiscal contribution. They paid more in taxes than they received in welfare payments. A8 immigrants paid in about £15 billion more than they took out in public spending in the decade up to 2011. The central estimate of the Office for Budget Responsibility (2013) is that the UK's national debt will be 40 percentage points higher in 2062 if net immigration is reduced to zero from 140,000 per year. By contrast, UK nationals, as a whole, received more in benefits than they paid in taxes, much the same as non-EU immigrants. A recent study by HMRC (2016) finds that new arrivals from the EEA are net fiscal contributors.

Given that EU immigrants are making net contributions, there is no reason to think that they should crowd out public services. Their extra fiscal contributions could be used to increase spending on local health and education for the UK-born. In other words, reducing EU immigration could generate the need for continued austerity. This would magnify the need for cutbacks caused by the slower growth of the economy due to reduced trade and investment from falling immigration identified by Dhingra et al (2016a, 2016b).

If immigrants cause social disruption, we would expect this to be reflected in crime rates. Bell et al (2013) find no effect of the big 2004 increase in immigration from A8 countries on crime. Geay et al (2013) find no effect of immigration on aspects of educational attainment and actually some positive effect from Polish children on UK-born pupils: the disadvantage in having English as a second language seems to be outweighed by a stronger immigrant push to work hard at school. Wadsworth (2013) finds no greater usage of doctors and hospitals by immigrants relative to the UK-born; and Giuntella et al (2015) find little effect on NHS waiting times. These studies do not distinguish between EU and non-EU immigrants, but since EU immigrants are younger than non-EU immigrants, they are less likely to use health services, and the results are likely to be stronger.

There is a general perception that immigrants are given better treatment when applying for social housing. Battiston et al (2013) show that controlling for demographic, economic and regional circumstances, immigrant households are *less* likely to be in social housing than their UK-born counterparts. Lack of access to social housing has more to do with the falling supply of social housing.

One area where we may be concerned is the effect of immigration on house prices. The UK's record of building insufficient houses does mean that the population increase generated by immigrants adds to housing pressure. But the failure to create enough housing supply would be a problem even in the absence of EU immigration. It is rooted in the failure of the UK planning system to make appropriate infrastructure decisions more generally (LSE Growth Commission, 2013; Hilber, 2015). The empirical evidence does not find positive effects of immigration on local house prices (Sa, 2015).

Another argument made in favour for Brexit is that the big increases in the minimum wage (the National Living Wage) planned over the next four years will draw in many more EU immigrants.[3] It is unclear how big a draw this could be since it depends, in part, on what other countries do with their own minimum wages and on the relative cost of living in each country. The Office for Budget Responsibility, (2015), predicts an increase in unemployment of 60,000 which would also be concentrated among the less skilled.

Productivity and immigration

Migration acts much like trade in capital, as people tend to move to countries where they can be more productive and earn higher incomes. This increases welfare through greater efficiency in labour allocation across the world. Immigrants also fill the gaps in the skill composition of the national workforce. This fosters specialisation, increases productivity and raises the wages of national workers with complementary skills.

There is a consensus on immigration's positive effects on trade and foreign direct investment. But there is less of a consensus on the effect of immigration on productivity. There is strong evidence of positive effects for more educated immigrants (for example, Ottaviano et al, 2016, for UK service productivity; and Ortega and Peri, 2014). Indeed, most studies show insignificant or positive effects of overall immigration.[4] For example, Felbermayr et al (2010) concludes that a 10% increase in the immigrant stock leads to a per capita income gain of 2.2%.

Recent work by Boubtane et al (2015, Table 3) finds that a 50% decrease in the net immigration rate would reduce UK productivity growth by 0.32% per annum. Since EU immigration is half of the current UK total (see Figure 1), cutting EU immigrants to 80,000 per year is likely to shave 0.16% off productivity growth. So about a decade after Brexit, UK GDP per capita will be about 1.6% lower than it would have otherwise been.

Supporters of Brexit argue that economic benefits would flow from bringing EU immigration under the same rules as non-EU immigrants. Boubtane et al (2015) look at how improving the average skill level of immigrants could increase productivity. To offset the productivity loss from halving EU net immigration, the UK immigration system would have to improve the relative education levels of EU immigrants by about a quarter. Since EU immigrants are already significantly better educated than the UK-born, this may be hard to achieve.

[3] See http://www.dailymail.co.uk/wires/pa/article-3554751/Brexit-camp-backlash-Obama-queue-warning.html.
[4] For example, http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/home-affairs-committee/immigration-skill-shortages/written/23066.pdf.

Immigration and the 2017 election: will EU immigration really be restricted after Brexit?

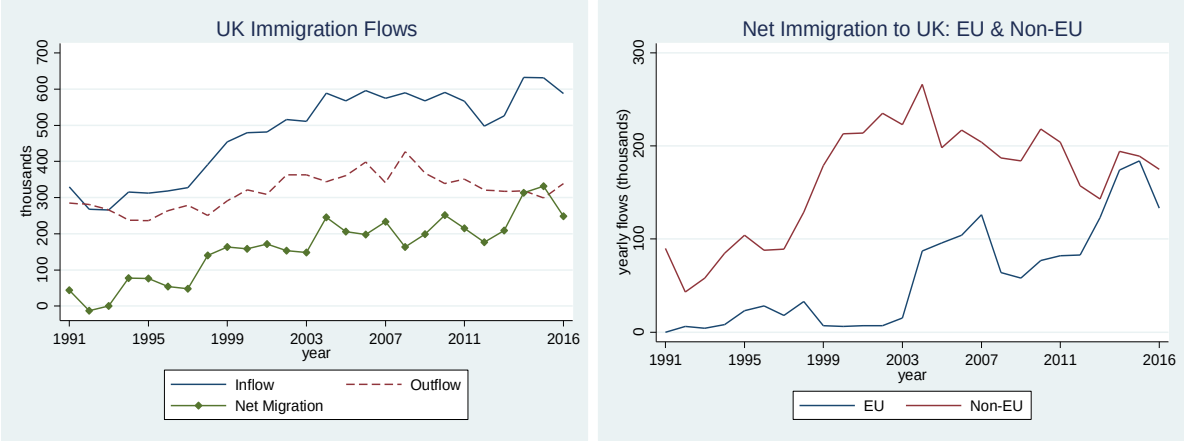
The parties have made few specific manifesto pledges about immigration this time around. Labour and the Liberal Democrats are promising a new 'fair' managed migration system and both aim to take students out of the official immigration counts. Only the Conservatives have pledged to get annual net immigration numbers below 100,000 including students. In addition, if elected, they will raise the forthcoming immigration levy on firms hiring immigrants to £2000 a year for each migrant hire (for up to five years at the firm), raise the income threshold at which dependents are allowed to join a UK resident and tighten visa regulations and post-study work options for students.

Net immigration targets (the difference between who comes in and who goes out) are by definition very difficult to control, since government can, at best, only control who comes in and not who leaves.

Net migration has fallen over the last year. The irony is – as Figure 6 shows – that much of this has been driven by either by a rise in emigration out of the UK by EU (mainly A8) citizens, or by a fall in the number of Britons returning to the UK, factors over which the government has little control.

Figure 6 second panel shows how the net flows have changed for EU and non-EU immigrants. Until last year, immigration from the EU had been growing faster than immigration from elsewhere. Now net immigration from the EU has fallen back. In the year to December 2016, net EU immigration was around 133,000, comprising 250,000 EU nationals arriving and 117,000 leaving. Net immigration for non-EU nationals 175,000.[5]

Figure 6: Net immigration to the UK, 1991-2016

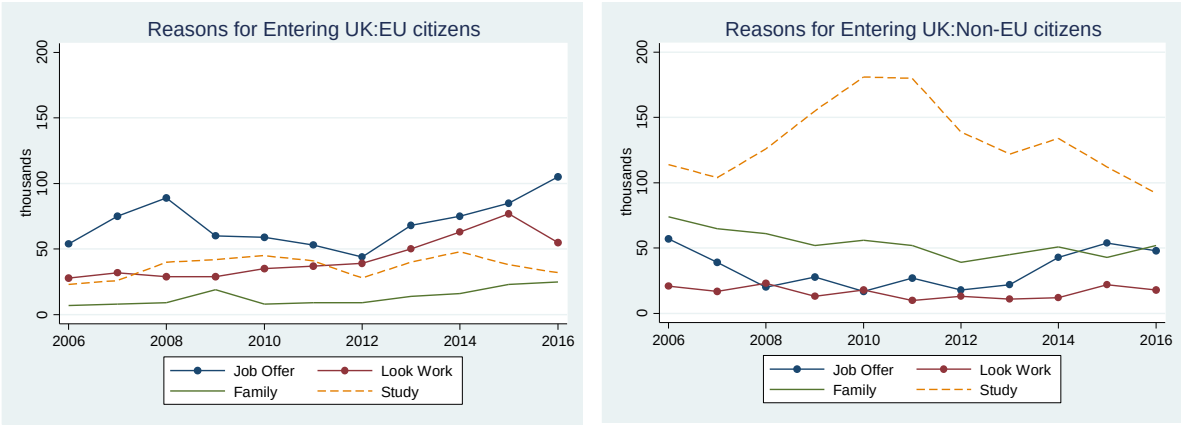


Source: ONS (2017) .
https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/migrationstatisticsquarterlyreportprovisionallongterminternationalmigrationltimestimates

If governments can only really control inflows what type of inflows might be targeted if an incoming government were inclined to try to reduce net immigration significantly further?

[5] The total net migration count is reduced by net emigration of around 50,000 UK nationals (in 2016)

Figure 7: Inflows to UK by reason: EU and non-EU citizens



Source: LTIMS (2017).

At present, only work visas issued to non-EU nationals are restricted. If the UK leaves the EU and also the European Free Trade Area (EFTA) and the European Economic Area (EEA), as seems likely, then it could restrict EU immigration in much the same way as non-EU immigration is restricted.[6]

If EU immigration were cut following Brexit, then something like the current visa scheme that applies to non-EU immigrants would have to be adopted to accommodate immigration from the EU. Current rules effectively exclude non-EU immigration from all but graduate jobs and limit numbers arriving on work visas each year to around 55,000, (5,000 in 'Tier 1' and 50,000 in 'Tier 2') plus any dependents.[7] This would mean decisions would have to be taken on whether or not to expand the current work-related quotas to accommodate some additional flows from the EU and which skill groups to allow.

As Figure 7 shows, work related flows dominate EU inflows from the EU. It is likely then that after Brexit, both skilled and particularly less skilled EU immigration would be cut and there is little prospect of non-EU skilled immigration being expanded.

Restrictions on family migration are less likely to be effective in reducing immigration much, since many dependants now accompany individuals on skilled work visas and therefore would be likely to be above any income thresholds of the main earner. Any immigration levy would raise the costs of employing migrant workers and so may reduce demand for migrants if employers are unable to pass on higher labour costs in the form of higher prices, (Migration Advisory Committee, 2016). It should also encourage firms, or the government if it channels the revenues from the levy, to invest more in training the domestic workforce.

Would work-related quotas on EU migrants get immigration flows below the 'tens of thousands'? Almost certainly not. Net inflows from outside the EU are themselves well above this notional 100,000 target. So in the unlikely event that EU immigration fell to zero the 100,000 target would be breached without further restrictions on non-EU migrants. Figure 7 shows that most non-EU inflows are students. So large restrictions would have to apply to students and/or EU citizens with a job offer to get anywhere near a 100,000 target.

[6] Membership of EFTA and/or the EEA obliges member countries to accept freedom of movement, as in Norway or Switzerland.

[7] See https://www.gov.uk/government/publications/immigration-statistics-october-to-december-2015/work. In addition to the 55,000 work visas, there were an additional 38,000 dependents. The total for Tier 2 includes a quota of 20,700 work visas with the rest made up of short-term Inter Company Transfer visas.

Conclusion

It is very difficult to find much evidence that immigration has had a negative effect on many sectors of the UK economy. Any adverse experiences of UK-born workers with regard to jobs and wages are much more closely associated with the biggest economic crash for more than 80 years. But, it should be said, neither is there much evidence of large positive effects of immigration. So on the evidence on its economic costs (or benefits), it is hard to make a case that immigration should be a big feature of this election. But it almost certainly is.

It should be impossible to discuss immigration in the election without thinking about what will happen as Brexit looms. Yet none of the parties has outlined a clear view of how to deal with the consequences of ending free movement of labour from the EU.

Net immigration seems to have fallen over the past year, but for reasons that the government has very little control over: increased emigration and a fall in the number of Britons returning to the UK. This underlines how difficult it is to target a net immigration count.

At the national level, any falls in EU immigration are likely to lead to lower living standards for the UK-born. This is partly because immigrants help to reduce the deficit: they are more likely to work and pay tax; and they are less likely to use public services as they are younger and better educated than the UK-born. It is also partly due to the positive effects of EU immigrants on productivity.

There is a wide consensus that trade and foreign investment will also fall after Brexit, both of which would reduce UK incomes. Lower immigration is a third channel that will push UK living standards lower. How large any fall would be depends on by how much immigration will fall. This, of course, is unknown.

May 2017

For further information, contact: Jonathan Wadsworth: j.wadsworth@lse.ac.uk [8]

[8] Jonathan Wadsworth is professor of economics at Royal Holloway College University of London and a senior research fellow at the LSE's Centre for Economic Performance. He was a member of the Home Office's Migration Advisory Committee from 2007 to 2016.

Further reading

Battiston, D, R Dickens, A Manning and J Wadsworth (2013) 'Immigration and the Access to Social Housing in the UK', CEP Discussion Paper No. 1264. (http://cep.lse.ac.uk/pubs/download/dp1264.pdf).

Bell, B, F Fasani and S Machin (2013) 'Crime and Immigration: Evidence from Large Immigrant Waves', *Review of Economics and Statistics* 95(4): 1278-90.

Boubtane, E, J-C Dumont and C Rault (2015) 'Immigration and Economic Growth in the OECD Countries 1986-2006', CESIFO Working Paper 5392. (http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2622005_code459177.pdf?abstractid=2622005&mirid=3).

Centre for European Reform (2016) *The Economic Consequences of Leaving the EU*. (https://www.cer.org.uk/publications/archive/report/2016/economic-consequences-leaving-eu-final-report-cer-commission-brexit).

Dhingra, S, G Ottaviano, T Sampson and J Van Reenen (2016a) 'The Consequences of Brexit for UK Trade and Living Standards', CEP Brexit Analysis No. 2. (http://cep.lse.ac.uk/pubs/download/brexit02.pdf).

Dhingra, S, G Ottaviano, T Sampson and J Van Reenen (2016b) 'The Impact of Brexit on Foreign Investment in the UK', CEP Brexit Analysis No. 3. (http://cep.lse.ac.uk/pubs/download/brexit03.pdf).

Dustmann, C, F Fabbri and I Preston (2005) 'The Impact of Immigration on the UK Labour Market', *Economic Journal* 115: F324-41.

Dustmann, C, T Frattini and I Preston (2013) 'The Effect of Immigration along the Distribution of Wages', *Review of Economic Studies* 80: 145-73.

Dustmann, C and T Frattini (2014) 'The Fiscal Effects of Immigration to the UK', *Economic Journal* 124: F593-643.

Geay, C, S McNally and S Telhaj (2013) 'Non-Native Speakers in the Classroom: What are the Effects on Pupil Performance?', *Economic Journal* 123: F281-307.

Felbermayr, G, S Hiller and D Sala (2010) 'Does Immigration Boost per Capita Income?', *Economic Letters* 107(2): 177-79.

Giuntella, O, C Nicodemo and C Vargas Silva (2015) 'The Effects of Immigration on NHS Waiting Times', University of Oxford Working Paper.

Hilber, C (2015) 'UK Housing and Planning Policies', CEP Election Analysis No. 3. (http://cep.lse.ac.uk/pubs/download/EA033.pdf).

HMRC (2016), 'Statistics on recently arrived non-UK EEA nationals subject to income tax and National Insurance contributions or receiving HMRC administered benefits', HMRC. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522811/HMRC-Ad_Hoc_Stats_Release-EEA_Nationals_net_contribution_2013-2014.pdf.

House of Commons (2014) 'Statistics on migrants and benefits', House of Commons Note Standard. (http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06955).

IPSOS/MORI (2017), 'Economist/IPSOS/Mori Issues Index', April 2017. https://www.ipsos.com/sites/default/files/2017-05/issues-index-april-2017-charts.pdf.

LTIMS (2017), 'Provisional Long-Term International Migration Estimates', February, ONS. https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/migrationstatisticsquarterlyreportprovisionallongterminternationalmigrationltimestimates.

LSE Growth Commission (2013) *Investing for Prosperity*. http://www.lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/LSEGC-Report.pdf.

Manacorda, M, A Manning and J Wadsworth (2011) 'The Impact of Immigration on the Structure of Male Wages: Theory and Evidence from Britain', *Journal of the European Economic Association* 10: 120-51.

Migration Advisory Committee (2014), 'Migrants in Low Skilled Work'. (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333083/MAC-Migrants_in_low-skilled_work__Full_report_2014.pdf).

Migration Advisory Committee (2016), 'Review of Tier 2: Balancing Migrant selectivity, investment in skills and impacts on productivity'. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/493039/Tier_2_Report_Review_Version_for_Publishing_FINAL.pdf.

Nickell, S and J Saleheen (2015) 'The Impact of Immigration on Occupational Wages: Evidence from Britain', Bank of England Staff Working paper No. 574.

Office for Budget Responsibility (2013) 'Fiscal Sustainability Report', July.

Office for Budget Responsibility (2015) 'Economic and Fiscal Outlook', July.

ONS (2017) *Migration Statistics Quarterly Review*. (https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/february2016).

Ortega F and G Peri (2014) 'Migration, Trade and Income', *Journal of International Economics* 92: 231-51.

Ottaviano, G, G Peri and G Wright (2016) 'Immigration, Trade and Productivity in services', CEP Discussion Paper No. 1353 (http://cep.lse.ac.uk/pubs/download/dp1353.pdf).

Portes, J (2016a) 'Immigration, Free Movement and the UK Referendum', *NIESR Review* 236.

Portes, J (2016b) 'EU Immigration and the UK Labour Market', NIESR mimeo.

Sa, F (2015) 'Immigration and House Prices in the UK', *Economic Journal* 125: 1393-1424.

Wadsworth, J (2013) 'Mustn't Grumble: Immigration, Health and Health Service Use in the UK and Germany', *Fiscal Studies* 34(1): 55-82.

Wadsworth, J (2015) 'Immigration and the UK Labour Market', CEP Election Analysis No. 1 (http://cep.lse.ac.uk/pubs/download/EA019.pdf).

Annex: data sources and definitions

Labour Force Survey (LFS)

Most of this report is based on CEP analysis of the latest individual-level data from Labour Force Survey (LFS). The LFS is the best data source to use covering a representative sample of individuals living in the UK. For example, in 2016, it includes about 90,000 people. The analysis in Figures 3-5 uses the Annual Population Survey (APS) which is based on pooling the LFS quarterly panel over about a year. It has about 350,000 observations a year for the working age population. In the regression lines we weight by the sample population to correct the standard errors for small areas.

With the LFS, it is possible to separate out who is a UK-born individual from those who are EU nationals. This enables us to examine not just the reported trends in the labour market but also to break this down into the UK-born and immigrants.

Definitions of immigrant status

The LFS asks people whether they were born in the UK and (except where noted otherwise) this forms the basis of our outcomes for the UK-born. For EU immigrants, we use the information on whether someone responded in the LFS that that they were a (non-UK) citizen of the EU. We use EU 'nationals' rather than EU-born because any post-Brexit policy would be to restrict people from entering the UK based on their citizenship rather than where they were born. But the results are similar using whether individuals were born in the EU as an immigrant measure rather than an 'EU national', so nothing much hinges on this.