

Immigration: Encourage or deter?

Dean Hochlaf and Ben Franklin

June 2016
www.ilcuk.org.uk



The International Longevity Centre – UK (ILC-UK) is a futures organisation focussed on some of the biggest challenges facing Government and society in the context of demographic change.

The ILC-UK is a registered charity (no. 1080496) incorporated with limited liability in England and Wales (company no. 3798902).

ILC–UK

11 Tufton Street

London

SW1P 3QB

Tel: +44 (0) 20 7340 0440

www.ilcuk.org.uk

This report was first published in June 2016 © ILC-UK 2016

The cover image was sourced from flickr Creative Commons, and was taken by gfpeck:
<https://www.flickr.com/people/wespeck/>

Table of Contents

About this report	4
Summary	4
Introduction	6
Demographic challenges	8
How does migration sit in this context?	11
Looking into the future: Migration as one solution to population ageing	18
Conclusion	21

About this report

As the EU referendum vote draws closer, the topic of immigration is increasingly prominent in public debate. Supporters of the UK staying in the EU have been quick to point out that free movement of labour is a reasonable price to pay for unfettered access and inclusion within the single market, whereas opponents have argued that current levels of immigration are socially and economically unsustainable, with high levels of migration putting a strain on public services and crowding out the labour market. In this regard, this report aims to assess the impact of immigration in the context of population ageing. We use data from respected, recognised, and independent sources including the Office for National Statistics (ONS), the Office for Budget Responsibility (OBR), Eurostat and the Organization for Economic Cooperation and Development (OECD) as well as referring to respected academic sources.

Summary

The UK's population is ageing

- Between 1950 and 2013, the number of working age people for every person over 65 has fallen from 5.5 to 3. This is expected to fall further by 2050.
- Between 2000 and 2050, the population of over 65s is likely to double in size, with the population of over 85's more than quadrupling.

Why age matters to our future sustainability

- On average, people of working age are net contributors to UK public finances, while children and people over State Pension Age are not.
- Population ageing is therefore likely to imply that government spending will increase at a faster rate than tax revenue.
- Migrants may therefore help to mitigate the effects of population change if they help to boost the working age population relative to the older population.

Migrants and the workforce

- In 2015, the number of non-UK nationals working in the UK was 3.1 million.
- The health and social work sector has the greatest number of non-UK nationals working in it - 362,000, making up 8.9 % of the total workforce.
- In the accommodation and food industry, non-UK nationals make up 20.5% of the entire workforce equivalent to 327,000 people.
- Non-UK nationals living in the UK are more likely to be of working age than UK nationals. 76.5% of nationals from the European Economic Area (EEA)¹ are between the ages of 15-64, while

¹ The European Economic Area includes the members of the European Union and additional states which have agreed to the free movement of persons, goods, services and capital within the European common market.

81.6% of non-EEA nationals fall into the same category. In contrast, only 63.6% of British nationals are between the ages of 15-64.

Do migrants “crowd out” UK born workers?

- Fears about crowding out are based on the notion that there is a fixed number of jobs in an economy – there are not.
- Evidence about the impact of migration on the labour market at a local level suggests limited impacts on unemployment rates or pay amongst native workers.
- In addition, based on our own analysis of local authority data, we find that, on average, those local authorities with higher employment rates for the non-UK born population also have higher employment rates for the white UK born population.

EU migrant employment rates are higher than UK born employment rates

- Over the last decade, employment rates among EU nationals in the UK has been consistently higher than for British or non-EU citizens.
- In 2015, the employment rate for EU citizens in the UK was 82%, for UK citizens it was 77% and for non EU citizens it was 74%.

EU migrants have been net contributors to the state

- The fiscal impact of migrants varies depending on their characteristics.
- According to Dustmann and Frattini, migrants from the EEA have consistently put in more than they have taken out, with recent migrants making larger positive contributions.
- They estimate that between 2001-2011, migrants from the EEA made a positive contribution of £22.1 billion, while non-EEA migrants made a £2.9 billion contribution.

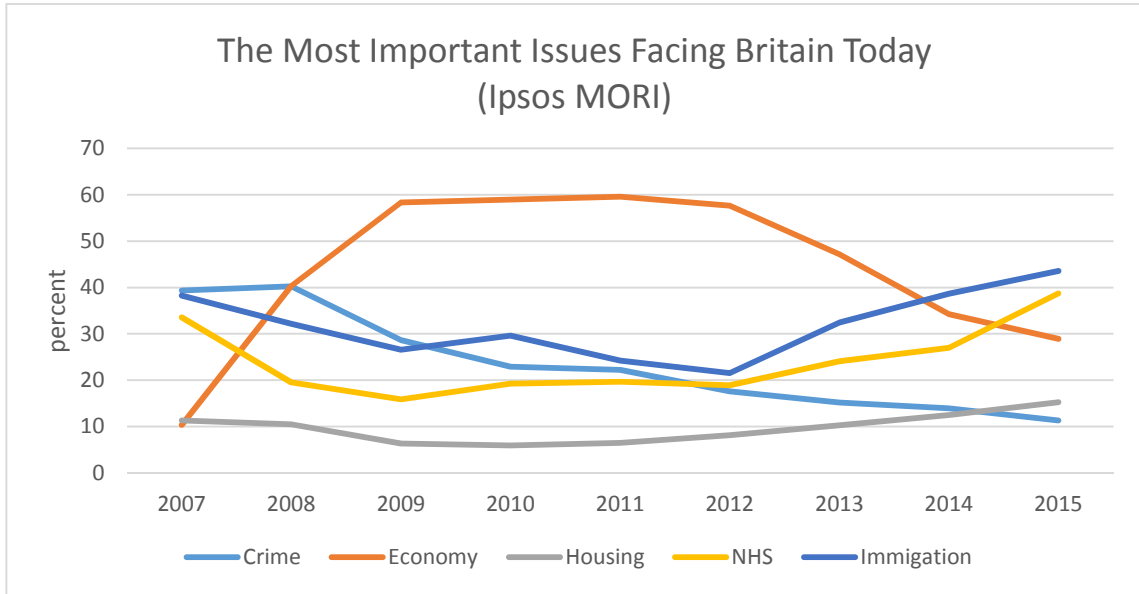
Migration could help to support our ageing population over the long-run

- Based on reasonable assumptions about the impact of migration on our economy, the OBR projects how different levels of migration are likely to affect the sustainability of government finances over the long run.
- **Impact on employment:** By 2064-65 in a scenario of high net migration, the number of people in work will be 38.1 million with an employment rate of 55%. Under the low migration scenario, the number of people in work will be 34.2 million with an employment rate of 54.1%.
- **Impact on growth:** Average growth under the low migration scenario is projected to be 2.4% per annum, while under the high migration scenario, it is larger at 2.6%. By the end of the projected period – 2064-65, GDP will be 11.4% (£625bn) larger in the high migration scenario than in the low migration scenario².
- **Impact on sustainability of public debt:** Migration is also likely to support the sustainability of government finances in the long run. Under the high net migration scenario, by 2064-65 net public debt is expected to equal approximately 70% of GDP. Under a low migration scenario, net public debt is set to rise to 104% of GDP.

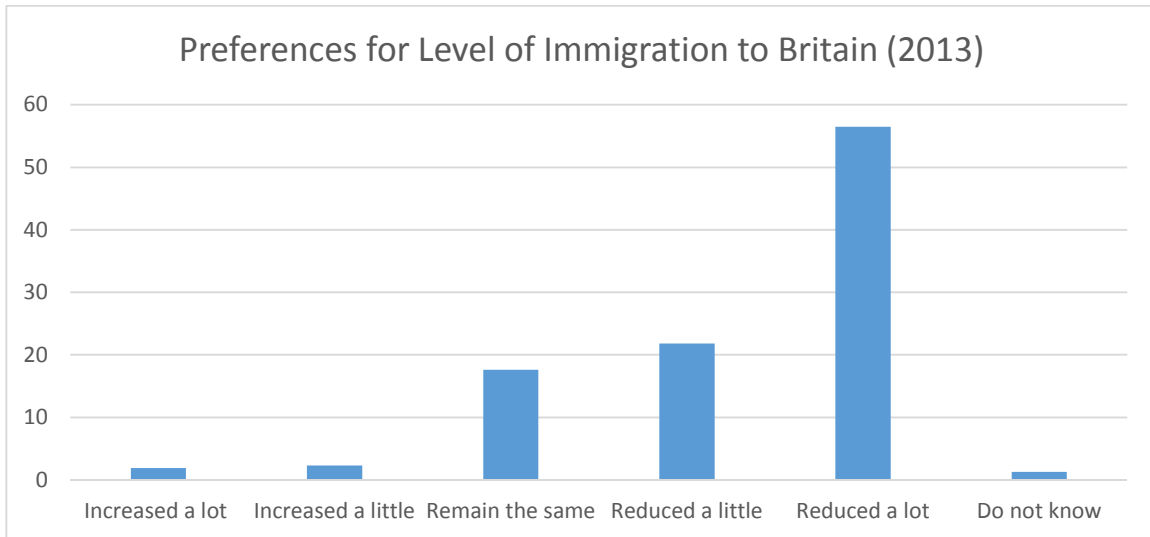
² Author's calculations based on OBR projections

Introduction

Immigration has dominated the debates surrounding the upcoming EU referendum. For the public, immigration consistently ranks as a major issue in opinion polling. In 2015, an annual average of 43.5% of respondents cited immigration as the biggest or among the biggest concerns they had regarding issues in Britain.



There is also a strong consensus, according to the British Social Attitudes Survey, that immigration rates should be considerably reduced.



Source: British Social Attitudes Survey

There appears to be an increasingly established political orthodoxy that levels of net migration (people coming in minus people leaving) are too high. In 2015, the Conservatives ran on an ambitious platform to reduce net migration to the tens of thousands. The Labour Party, while

recognising the importance of migration, conceded that “Labour got things wrong on immigration in the past”.³

Our view is that debates about migration should be set against the broader long-term, strategic context of population ageing – a seismic shift which is reshaping societies in developed and developing countries. This has implications for economic output and tax revenues as growth in the supply of workers to produce goods and services slows, as well as for government expenditure, as spending on health and social care rises to meet the needs of older people. In this context, this paper explores how migration could help mitigate the challenge of ageing.

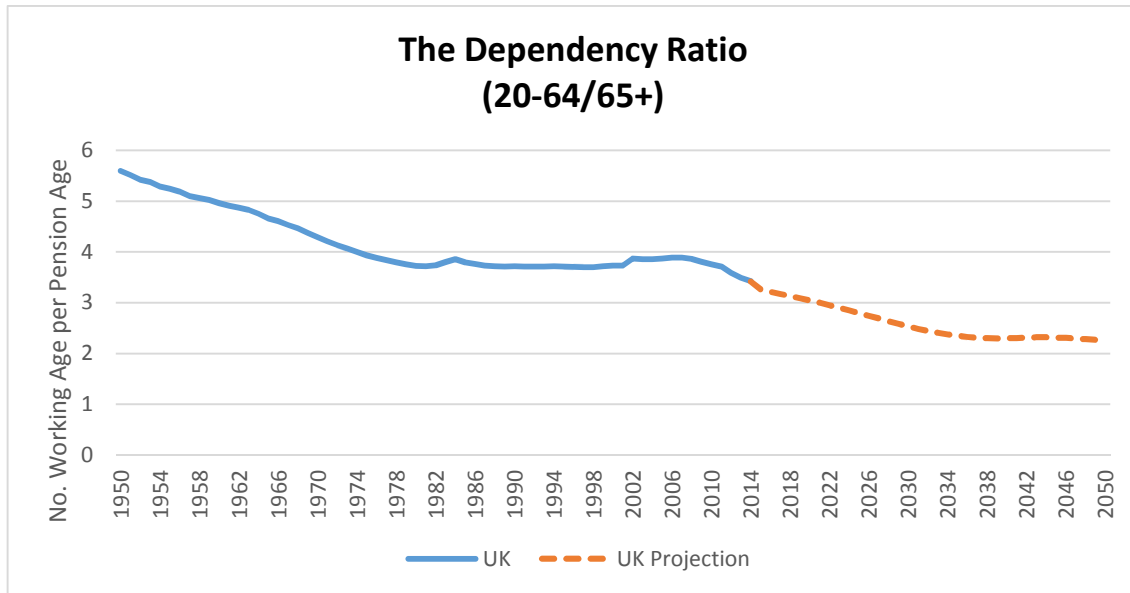
Defining migrants

Throughout this report, migrants are defined in two separate ways – non-UK born and non-UK nationals. Clearly the two are not the same. In an ideal world we would just stick to one definition for consistency, but due to the availability of reliable data and evidence we refer to both at different points in time. We have however, specified which definition we are using when outlining findings from our data analysis in this report.

³<http://press.labour.org.uk/post/102953239474/yvette-cooper-speech-labours-approach-to>

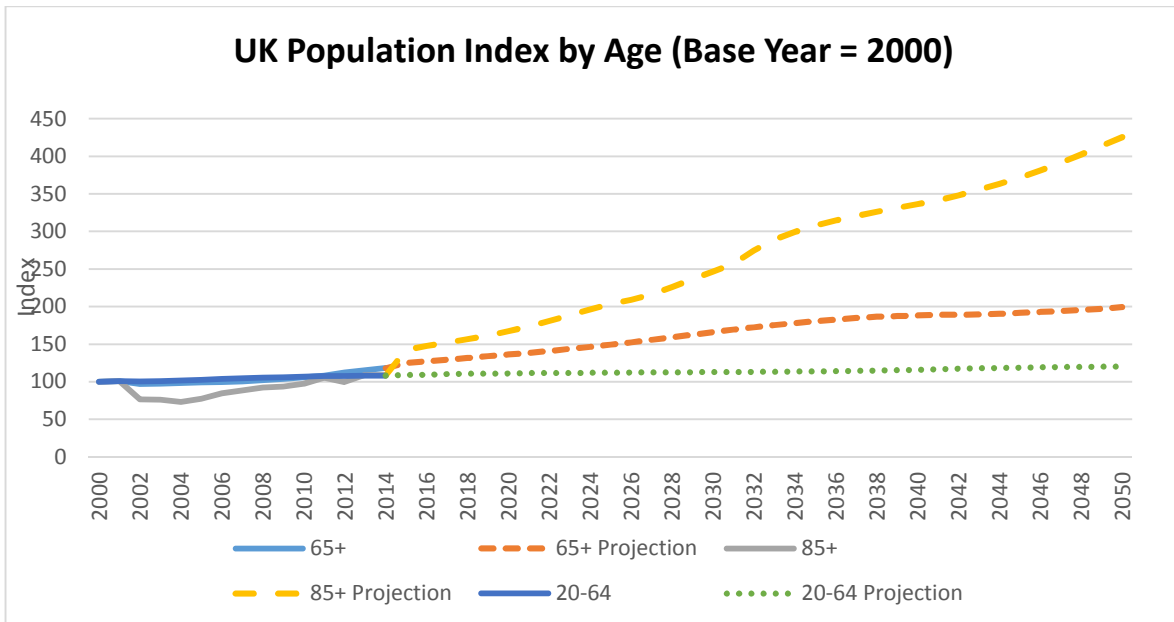
Demographic challenges

The dependency ratio (which we define as the number of people aged 20-64 for each person over the age of 65) is much smaller today than it was 60 years ago. In 1950, there were approximately 5.5 individuals for every older person in the UK. By 2013 this had fallen to 3.5 and according to OECD projections this will fall even further, so by 2050, there will only be 2.2 people of working age for every older person in the UK.



Source: OECD

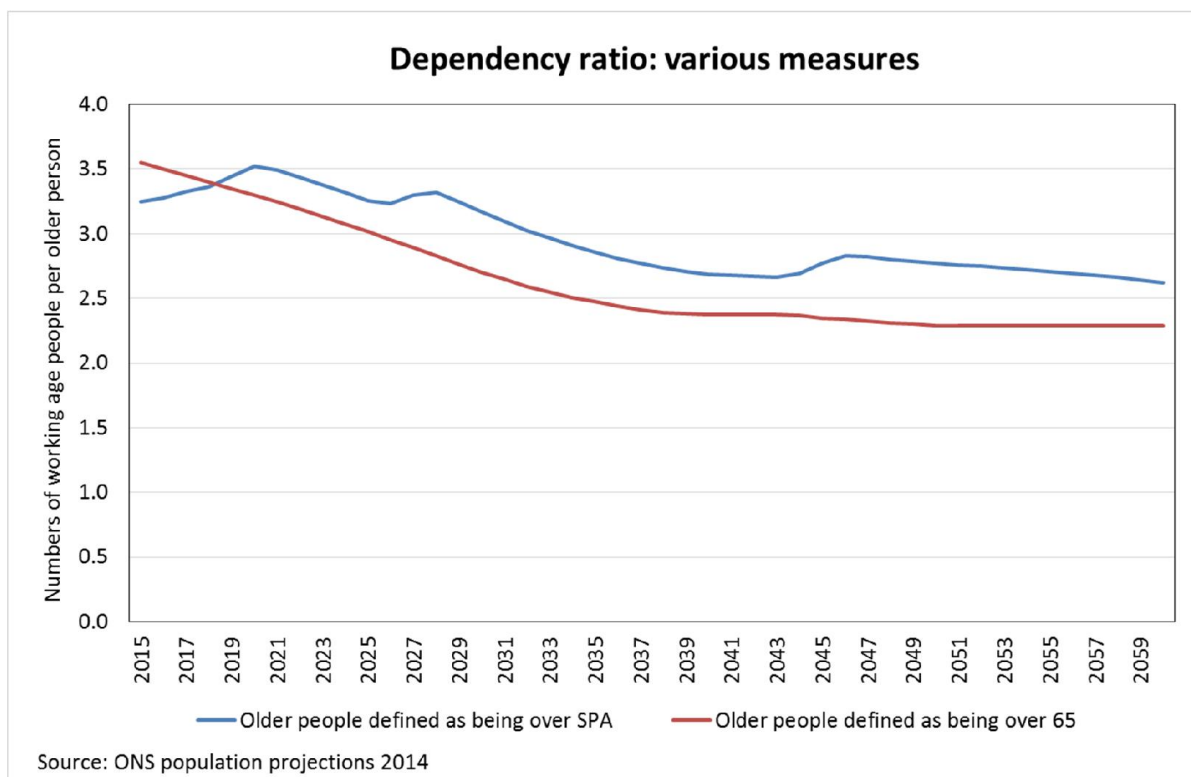
A rising dependent population has been caused by a combination of high growth rates among older people and a slowdown in the growth rate of the working age population. And this is set to continue over the course of this century. Between 2000 and 2050, the number of over 65's is expected to double, while the number of 20-64 year olds will only increase by 20.1%. The greatest change will be amongst the oldest old with the number of over-85s expected to more than quadruple between 2000-2050.



Source: OECD and author's calculations

Will planned changes to State Pension Age be sufficient to stabilise the ratio?

While the UK government has committed itself to raising the State Pension age beyond 65, this will not stabilise the dependency ratio – there will still be a falling number of working age people for every person over pensionable age although it will not fall as far.

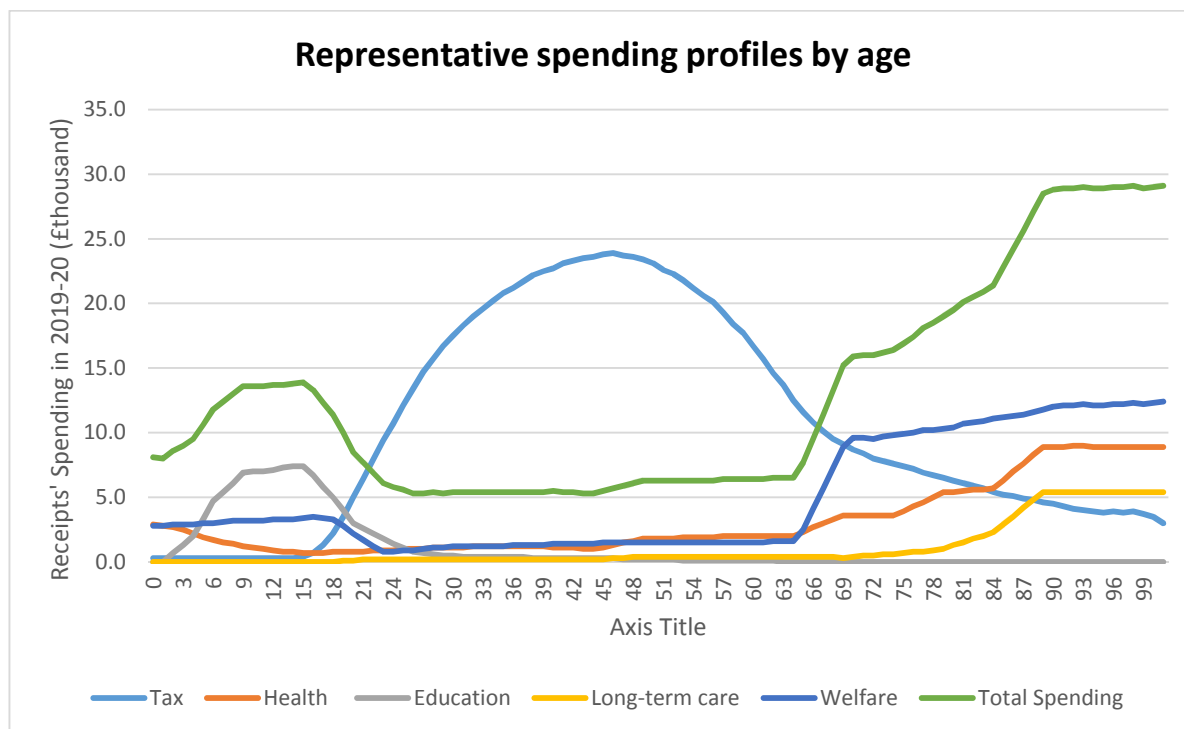


Source: ONS population projections 2014

Why does the dependency ratio matter?

Representative profiles of spending by age, from the Office of Budget Responsibility (OBR), highlight why the dependency ratio matters. Government spending on people aged between 0 to 21, is greater than the amount of tax being contributed by those individuals. Then between the ages of 22 to 67, people are on average, net contributors, putting in more by way of tax than taking out through government spending. Finally, after the age of about 67, total spending rises above tax contributions once again and increasingly so as people age.

Migrants may, therefore help to mitigate the public expenditure effects of population change if they help to boost the working age population relative to the older population.

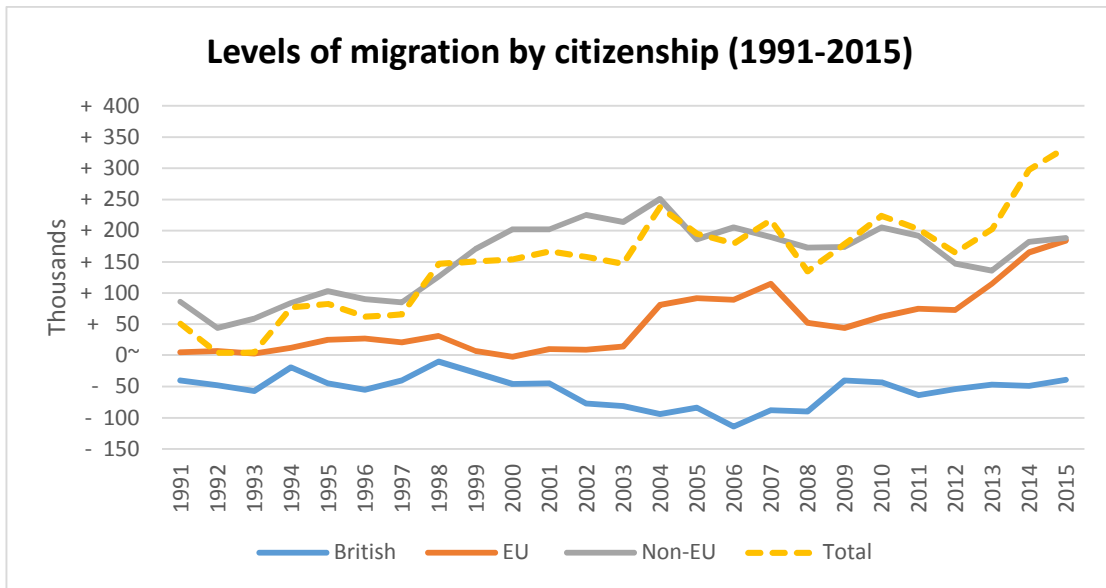


Source: Office of Budget Responsibility – Fiscal Sustainability Report 2015

How does migration sit in this context?

Recent trends

In 1991, total net migration - the difference between the inflow of people into the UK and the outflow of people from the UK was 51,000. In 2015, this number was 333,000. Although net migration from outside the EU has consistently been higher than net migration from within the EU, the figures have gradually converged. In 2004, the net number of non-EU migrants peaked at 238,000, compared to just 81,000 EU migrants. As of 2015, net migration for non-EU migrants was 188,000, while it was 184,000 for EU migrants.

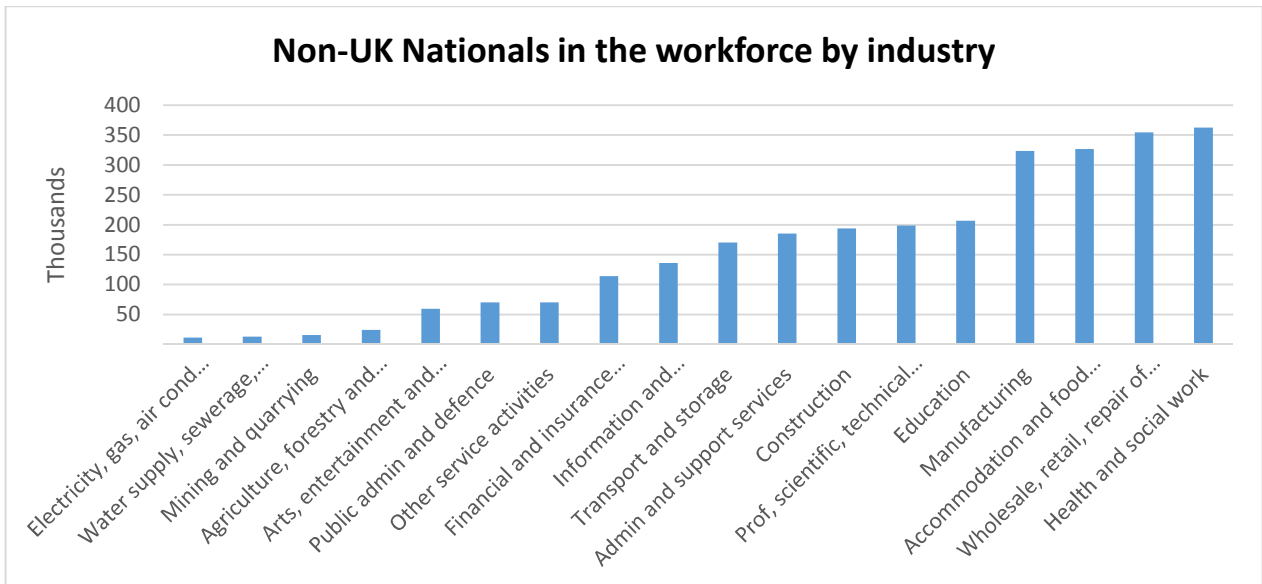


Source: ONS

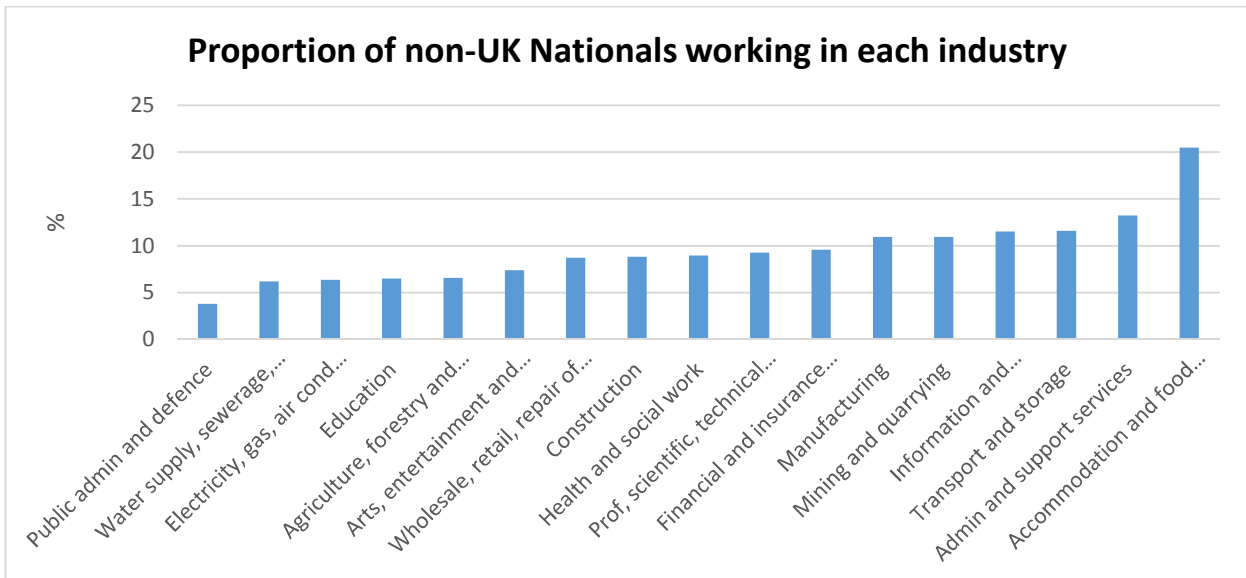
Migrants and the workforce

In 2014, there were 30.2 million workers employed in the UK. Of this number, 2.8 million were non-UK nationals. Non-UK nationals make up 9.5% of the UK's workforce and play a pivotal role in key industries.

Industries with a large number or high proportion of workers may be more sensitive to changes in immigration policies than others. Approximately 362,000 non-UK nationals (which does not take into account foreign born workers that now have British citizenship) work in health and social work, and this makes up 8.9% of the total health and social work workforce. Accommodation and food services has the highest proportion of non-UK nationals – over 20% equating to 327,000 people.



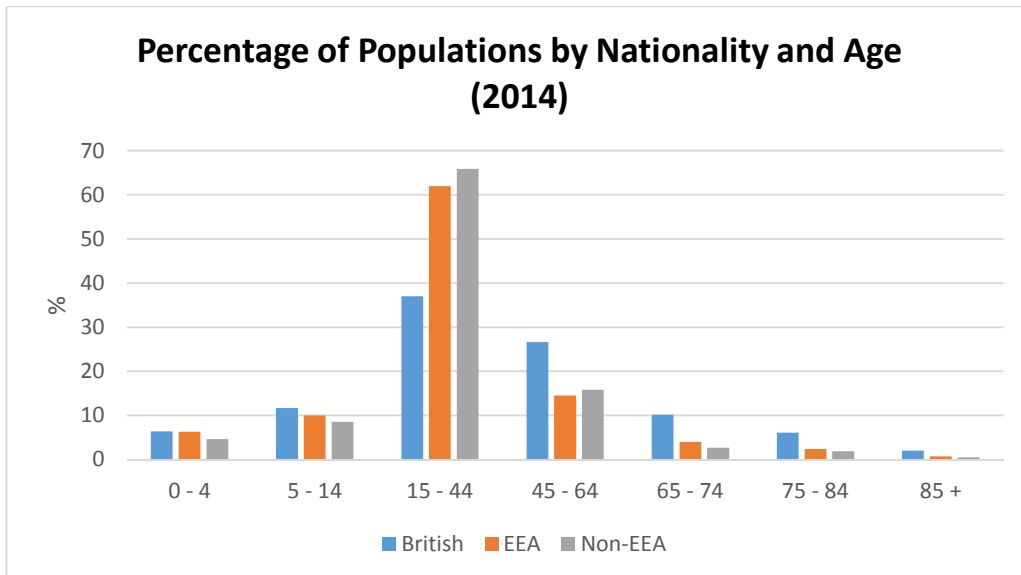
Source: Labour Force Survey (2014)



Source: Labour Force Survey (2014)

The age profile of migrants

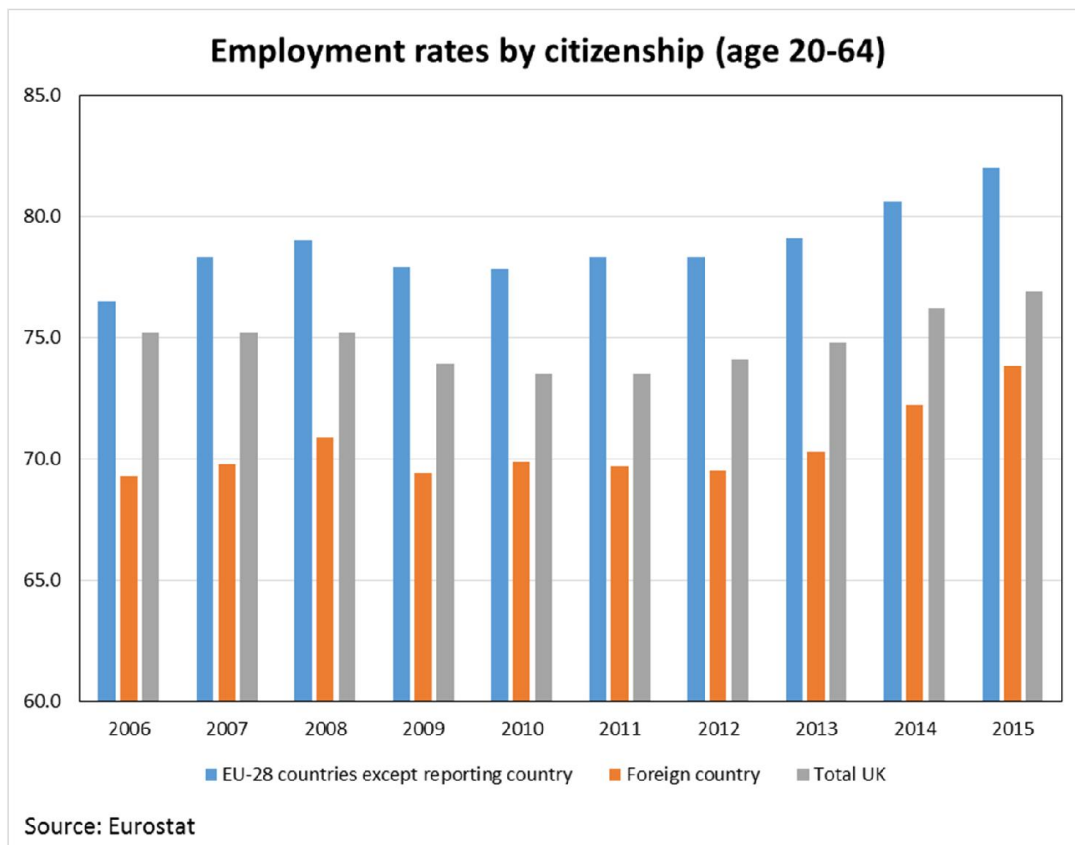
Migrants are more likely to be of working age (between the ages of 15-64) than non-migrants. Only 37% of British nationals are between the ages of 15-44, compared to 61.9% of EEA nationals and 65.8% of non-EEA nationals. In contrast, 17.1% of British nationals are over the age of 65, while only 7.1% of the EEA population residing in the UK and 5.1% of the non-EEA population is above the same age.



Source: Annual Population Survey

Are migrants less likely to be employed than UK citizens?

EU migrants have a higher employment rate than the UK average, though the employment rates for non-EU migrants is lower. The latter is lower primarily due to lower female participation rates amongst non-EU migrants.

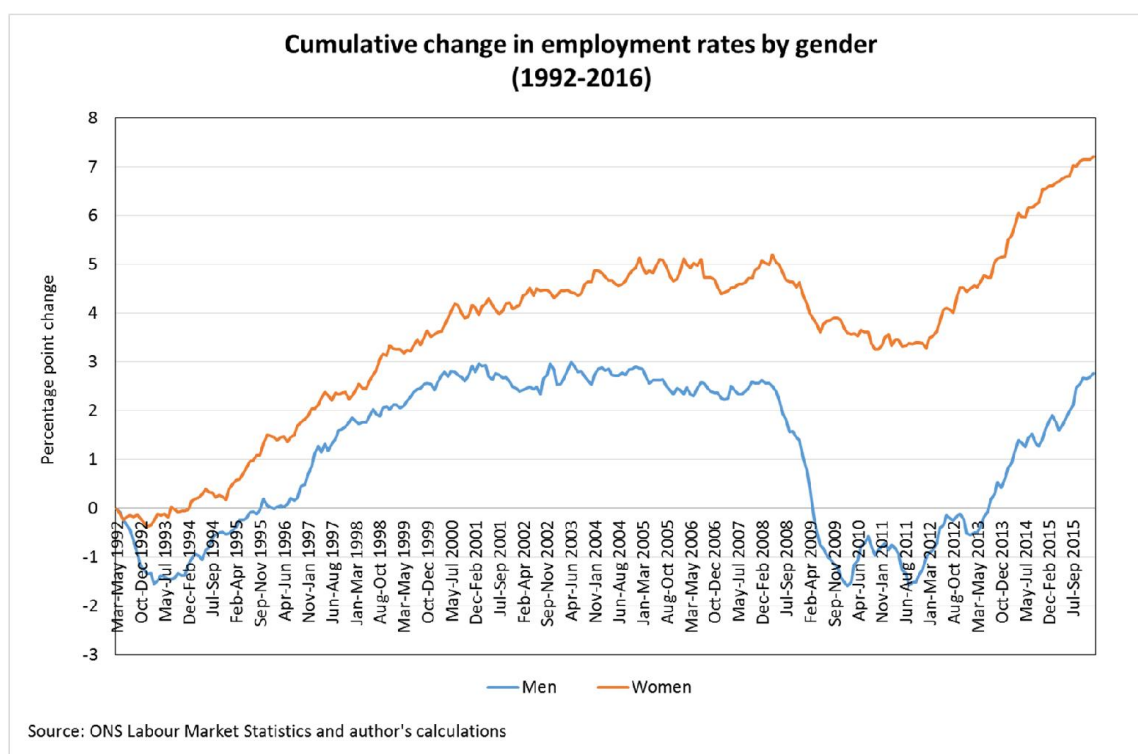


Impact of migration on UK born workers

A major concern regarding migrants is the impact they have on the labour market. There is a commonly held view that migrants and UK born individuals compete for the same, finite number of jobs which leads to higher unemployment rates for the UK born workforce and lower wages.

This notion is built on the false premise that there are a fixed number of jobs in the economy. An increase in the number of migrants in the labour force can actually help increase employment opportunities. Increased employment means greater demand for goods and services. As supply increases to match this demand, even more jobs may be created⁴. It has also been found that sectors and regions with a higher share of migrants are also more productive⁵.

Arguing that migrant workers will “crowd out” UK born workers is the same as arguing that women will crowd out men or older workers will crowd out younger workers. This is based on the same lump of labour fallacy⁶. As the chart below shows, an increasing proportion of women have joined the labour force over the last 30 years, but these increases have not coincided with falling employment rates for men.



Honing in on impacts across local authorities

Using data collected on local authorities, we find that on average, those local authorities with higher employment rates for the non-UK born population also have higher employment rates for the white UK born population⁷. The statistical relationship is weak but positive helping to dispel the notion that

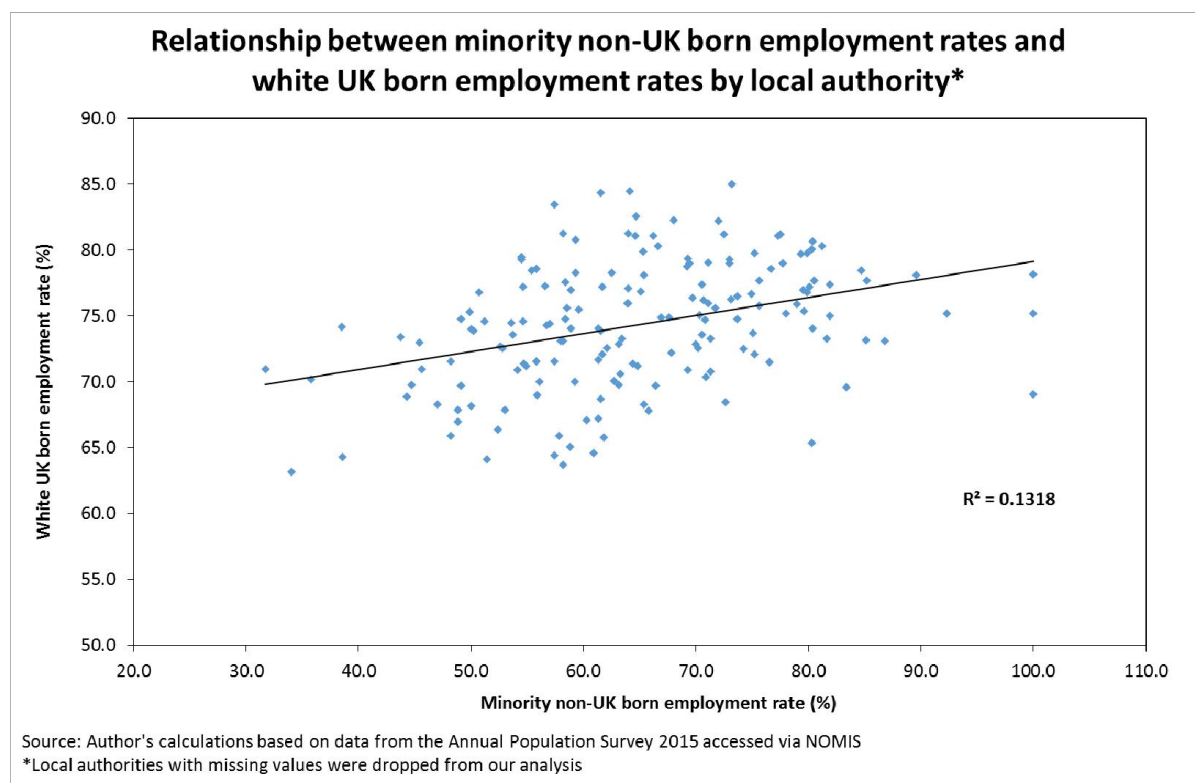
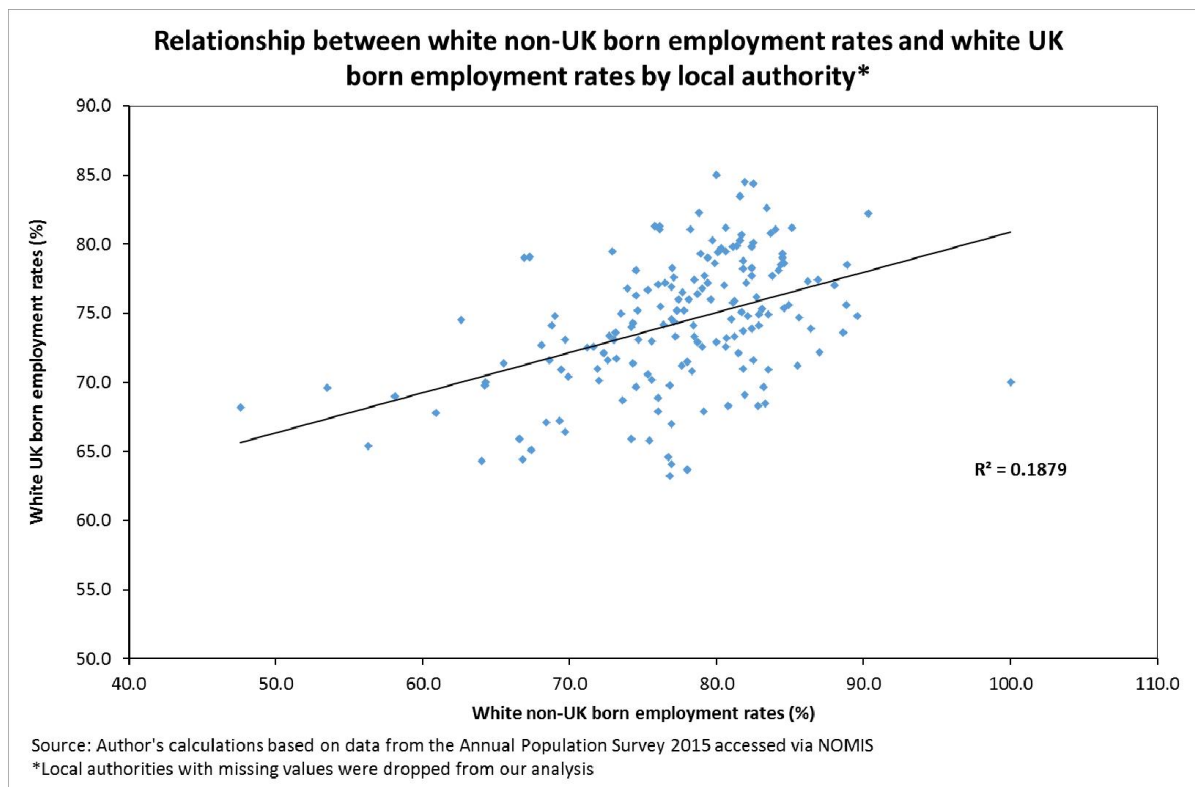
⁴ The International Longevity Centre (2014) “The Missing Million” used a similar argument to dismiss claims that greater participation of the elderly in the labour force would reduce opportunities for younger age groups.

⁵ Rolfe, Rienzo, Lalani and Portes (2013) Migration and productivity: employers’ practices, public attitudes and statistical evidence. Report for NIESR. <http://www.niesr.ac.uk/sites/default/files/publications/Migration%20productivity%20final.pdf>

⁶ See Martin Ruhs and Carlos Vargas-Silva (2015) “The Labour Market Effects of Immigration” The Migration Observatory, University of Oxford.

⁷ Data collected using NOMIS on country of birth by white/ethnic origin and local authority.

migrants “crowd out” the labour force at a local level (see charts below – each dot represents a local authority).



Past research on unemployment and wages

Research by the Centre of Economic Performance, which looked at the empirical impact of migration on the UK labour market found that large increases in immigration had “not significantly harmed the job and wage prospects of UK-born workers”.⁸

Based on a review of relevant literature, a briefing for the Migration Observatory concluded that immigration had a positive impact on the wages of high and medium paid workers, and a negative impact on the wages of low-paid workers. In addition, the review noted that research has failed to find “a significant impact of overall immigration on unemployment in the UK”, but that there is evidence that “immigration from outside the EU could have a negative impact on the employment of UK-born workers, especially during an economic downturn”⁹.

The net contribution of migrants to government finances

Given that migrants are often of working age and are in employment it would make sense for them to have a net positive impact on government finances – i.e. they contributed more in taxes than they took out. In this regard, perhaps the most widely regarded and discussed research paper on the contribution of migrants is by Dustmann and Frattini.

They found that the fiscal contribution by recent migrants (migrants that arrived after 2000) was positive, meaning they paid more in taxation than they received through benefits and transfer payments. Indeed, they estimate that between 2001-2011, migrants from the EEA made a positive contribution of £22.1 billion, while non-EEA migrants made a £2.9 billion contribution.¹⁰

This conclusion is echoed in the wider literature, including an OECD report¹¹ which found the net fiscal impact of migration to be positive. Migrants who are trained abroad, bring their skills to the UK and who pay for public services that they do not directly benefit from, are clearly going to make large positive contributions to government coffers.¹²

It should be noted there are limits in the methodology of assessing the fiscal impact of migration. It is difficult to assert how much of public services migrants consume. Whether or not to include the children of migrants in analyses also poses measurement issues. The wider impact of migrants on the labour market will also determine their overall fiscal contributions. But on the balance of the evidence outlined above, it seems that recent migrants have had a net positive impact on the public finances¹³.

⁸ Jonathan Wadsworth et al (2016) “Brexit and the Impact of Immigration on the UK” Centre for Economic Performance, London School of Economics

⁹ Martin Ruhs and Carlos Vargas-Silva (2015) “The Labour Market Effects of Immigration” The Migration Observatory, University of Oxford

¹⁰ Dustmann and Frattini (2014) The fiscal effects of immigration to the UK, The Economic Journal

¹¹ OECD 2013 International Migration Outlook

¹² Ibid Dustmann and Frattini (2014).

¹³ Carlos Vargas-Silva (2015) “The Fiscal Impact of Immigration in the UK” Briefing paper, 3rd Revision, the Migration Observatory at the University of Oxford

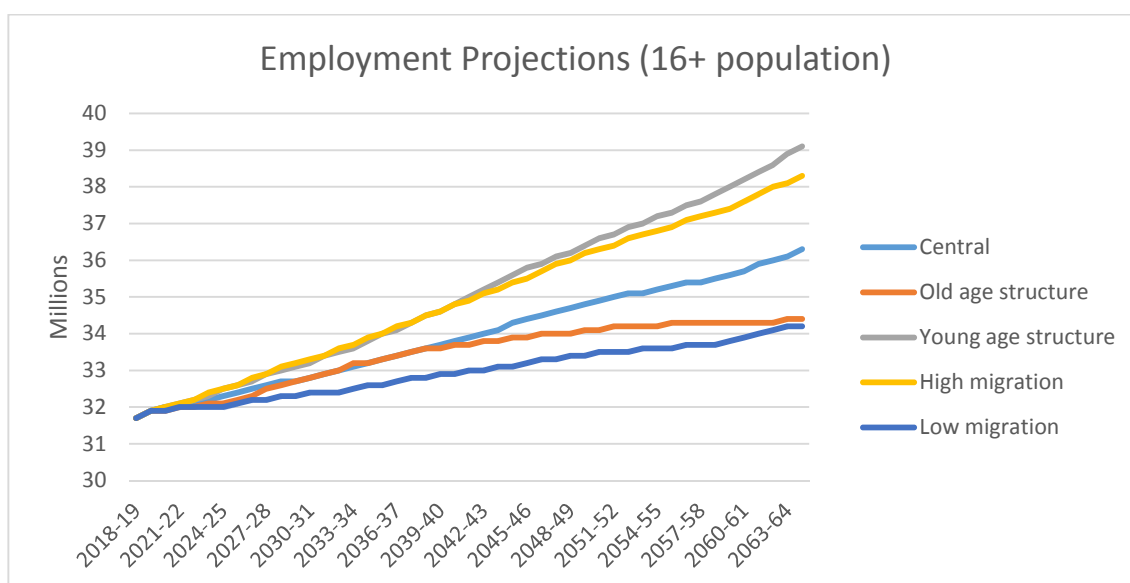
A quick recap

The evidence outlined above suggests that migrants may have had an overall positive impact on the economy and on government finances and that concerns that migrants will “crowd out” UK-born workers or be a burden on public finances may have been overblown. Given these findings, might migration actually help to mitigate the effects of population ageing?

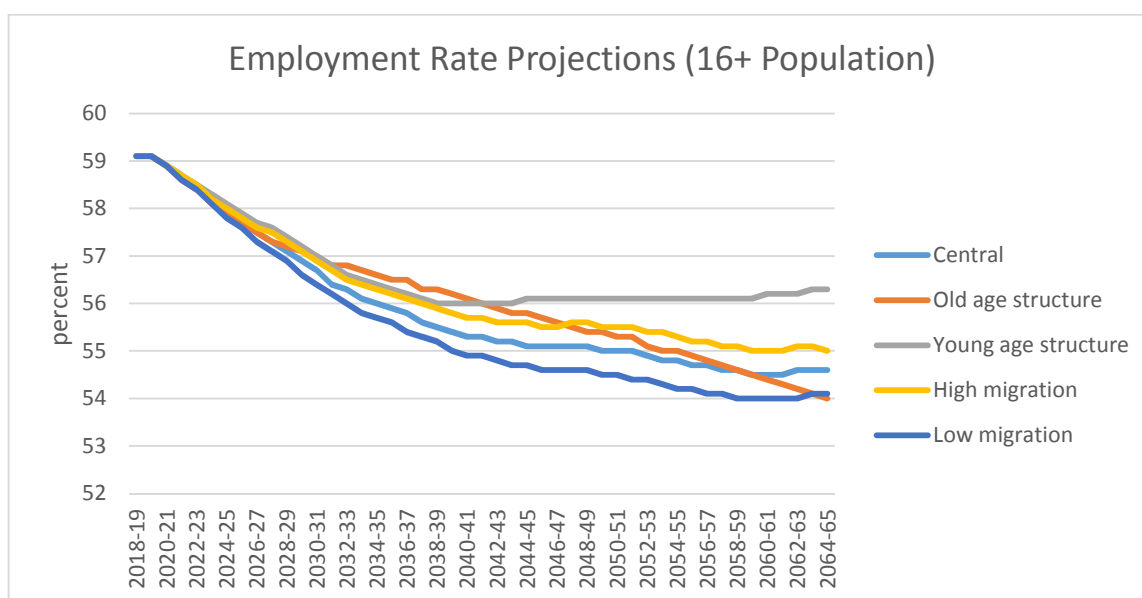
Looking into the future: migration as one solution to population ageing

The Office of Budget Responsibility's (OBR) Fiscal Sustainability Report gives us an insight into the future. Through creating different scenarios, ranging from levels of immigration to the age structure of the population, the OBR provides projections on the future state of our economy and public finances.

In a scenario of high migration, the number of people in employment is projected to rise from 31.9 million in 2019, to 38 million by 2064¹⁴. Under a low migration scenario, by 2064, the numbers in employment would be 34.2 million. Employment rates for high and low would stand at 55% and 54.1% respectively.



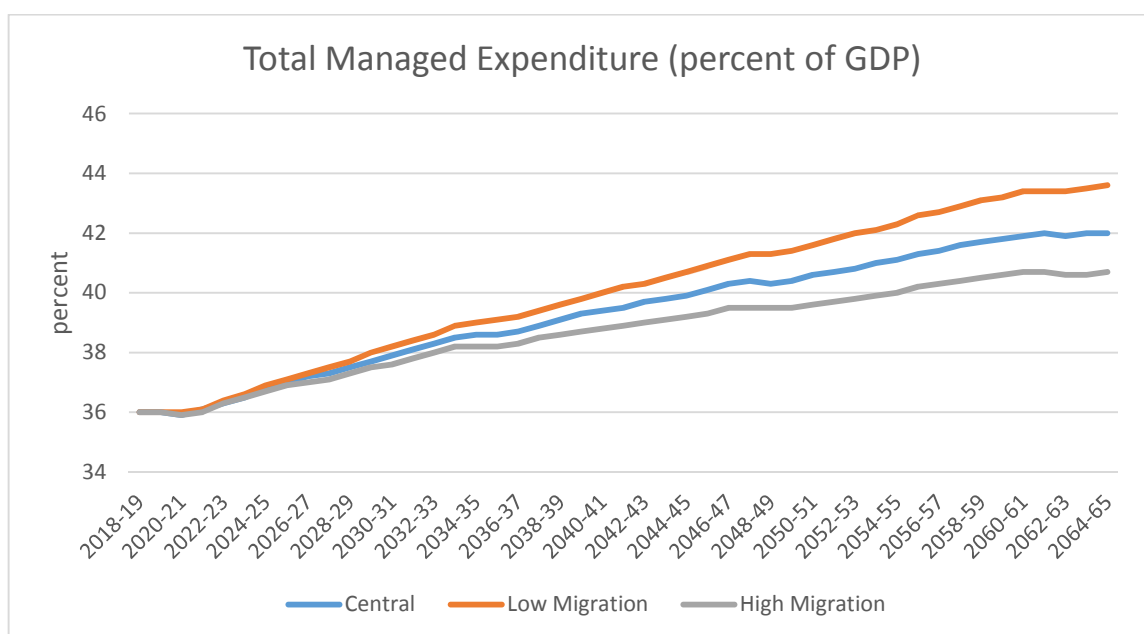
Source: OBR Fiscal Sustainability Report 2015



¹⁴ The OBR's migration assumptions are consistent with the Office for National Statistics Population Projections. In the high migration scenario net migration reaches 225,000 per annum, in the central scenario it reaches 165,000 per annum and in the low migration scenario it reaches 105,000.

Higher numbers in employment, means greater tax revenue and also a greater level of output. This will have a positive impact on GDP growth. Average growth under the low migration scenario is projected to be 2.4% per annum, while under the high migration scenario, it is larger at 2.6%. By the end of the projected period – 2064-65, GDP will be 11.4% (£625bn) larger in the high migration scenario than in the low migration scenario¹⁵.

Another benefit of this is evident in the projected level of total managed expenditure, the total spending of the government. Although a larger population, caused by higher migration, may require a greater level of government expenditure, as a percentage of GDP it is actually projected to be smaller than in a low migration scenario.

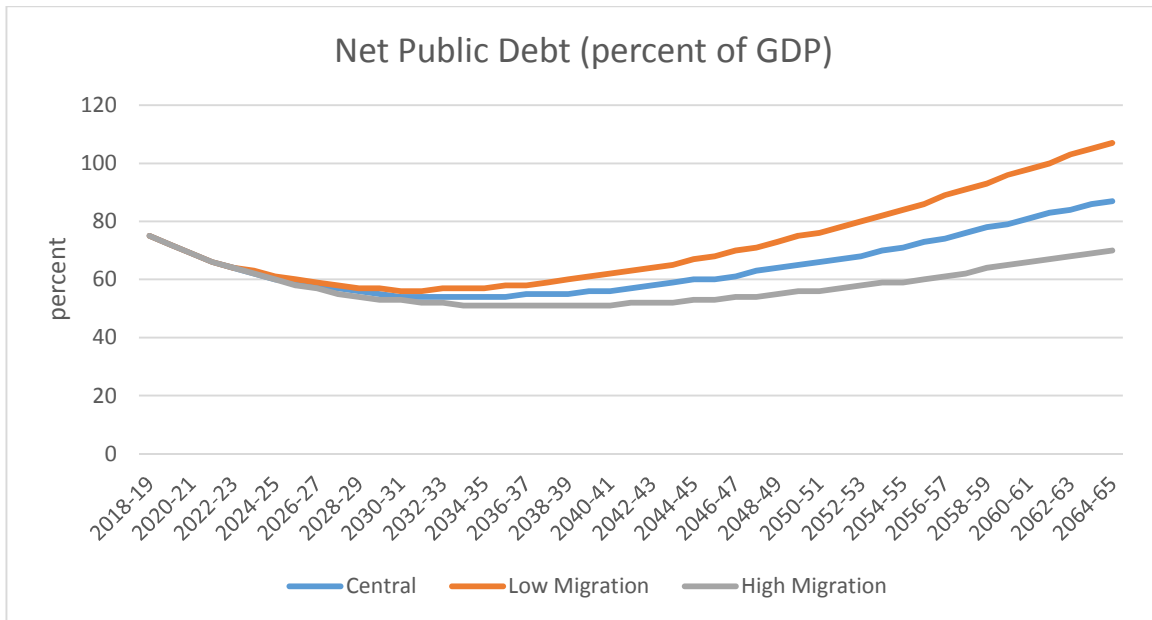


Source: OBR Fiscal Sustainability Report 2015

The overall impact on fiscal sustainability

The impact these scenarios have on employment and spending translates to an impact on the UK's net public debt as a proportion of economic output. In a low migration scenario, the increased spending relative to GDP means that debt will rise to 107% of GDP in 2064-2065. In contrast, a high migration scenario would see net debt rise to 70% of GDP in 2064-2065.

¹⁵ Author's calculations based on OBR projections



Source: OBR Fiscal Sustainability Report

It should be noted that these are only projections, and as a result we must be cautious in the way we interpret this data. The future of the economy is notoriously difficult to predict, even in the short run, let alone five decades into the future. Exogenous shocks such as a financial crash could radically alter the course of our economy. But these scenarios are based on plausible assumptions about the future and we can conclude that, on balance, higher migration is likely to be beneficial to the long run sustainability of UK government finances.

Conclusion

The demographic challenges that an ageing population poses, requires a re-adjustment in the way we approach the topic of immigration. The cost of providing pensions and care for the elderly is going to increase and we will need a dynamic and vibrant workforce if we are to afford this.

Immigration is no silver bullet. The UK's ageing population is a serious and dramatic demographic shift that will require a myriad of policies to help achieve desirable outcomes. However, we must recognise the benefits of immigration as a means of coping with the challenge. Migrants are typically of working age, in employment and make a net positive contribution to the state of government finances by contributing more in tax than taking out in benefits. Meanwhile, fears that migrants crowd out the labour market for native workers appear overblown with our analysis actually showing that those local authorities with a higher proportion of migrants employed also have a higher proportion of UK born workers employed.

A reduction in the level of migration may require unpopular changes to government policy in other areas. An increase in the State Pension Age or national insurance contributions, or a decrease in pensioner benefits may be necessary to offset some of the negative economic impacts a reduction in migration could entail. The IFoA and NIESR have calculated that a reduction in EU migration may require one of the following measures to offset it:

- Raising the State Pension Age by one year, or;
- Lowering the amount of state pension for new pensioners by 3.5%, which equates to approximately £300 less per person per year, or;
- Increasing the rate of National Insurance Contributions by nearly 1.5%.¹⁶

Whether we remain in the EU or not, the UK will have to accept that migrants will play a large role in the future of the labour market, as it does in most other developed economies. Even if we were to leave the EU “the government would come under tremendous pressure from employers and businesses” to maintain similar levels of migration in the future¹⁷. As long as the UK has a strong and growing economy, more people will want to come to the UK than to leave it. Since migration helps to support growth and the sustainability of public finances as our society ages, we need not fear it.

¹⁶ Angus Armstrong and Justin van de Ven (2016) “The Impact of Possible Migration Scenarios after “Brexit” on the State Pension System”, the National Institute of Economic and Social Research

¹⁷ James Hampshire (2016) “Think Brexit would mean lower immigration? Think Again” Politics.co.uk, Wednesday, 18th May

Partners Programme

International Longevity Centre - UK



ILC-UK is supported by our Partners Programme.
For more information, contact davidsinclair@ilcuk.org.uk

11 Tufton Street
London
SW1P 3QB
Tel : +44 (0) 20 7340 0440
www.ilcuk.org.uk

