

## Written evidence submitted by Professor Jonathan Portes

### Introduction

I have been working on the analysis of the economic and social impacts of migration to the UK since 1999, inside and outside government. Over that period the evidence base on those impacts has expanded hugely. Below I summarise the existing evidence from an economic perspective, under four headings:

- Labour market impacts
- Impacts on productivity and growth
- Fiscal and public service impacts
- The potential economic impacts of Brexit-induced reductions in migration

My conclusions here are inevitably in summary form, but where appropriate I provide references to original research, by myself and others.

I conclude with some observations on a post-Brexit migration system. Obviously these are inevitably speculative, so rather than a detailed analysis I merely try to identify some common misconceptions and myths. I hope the Committee finds this helpful.

### Labour market impacts

Much public and policy concern has focused on the distributional impacts of immigration - in particular potential negative impacts on employment and wages for low-skilled workers. Although the consensus in the economic literature is that negative impacts of migration for native workers are, if they exist at all, relatively small and short-lived (see, for example, Constant 2014) much of this literature is US-based; there was almost no empirical literature on the economic impact of immigration to the UK before 2004. Unsurprisingly, given the size of migration flows since then, this deficiency has now been remedied. There is now a considerable literature on the impact on the UK economy and labour market.

To the considerable surprise of many economists, including me, there is now a clear consensus that even in the short-term migration does not appear to have had a negative impact on the employment outcomes of UK natives. Studies have generally failed to find any significant association between migration flows and changes in employment or unemployment for natives (see eg [BIS, 2014](#), for a review). Since 2014, the continued buoyant performance of the UK labour market has further reinforced this consensus. Rapid falls in unemployment, now down to about 5%, have been combined with sustained high levels of immigration.

Nor is there any evidence that immigration has impacted the employment prospects of specific groups such as the young or unskilled. Crudely, immigrants are not taking our jobs – the lump of labour fallacy (which generally refers to the medium to long term) turns out to be a fallacy in the short term as well.

While the evidence on wage impacts is less conclusive, the emerging consensus is that recent migration has had little or no impact overall, but possibly some, small, negative impact on low-skilled workers. [Nickell and Salaheen \(2015\)](#) find that a 10 *percentage point* (not 10%, as misleadingly claimed by a number of politicians) rise in the immigrant share – that is, larger than that observed over the entirety of the last decade – leads to approximately a 1.5% reduction in wages for native workers in the semi/unskilled service sector. This would mean that immigration since 2004 would have reduced wages for native workers in that sector by about 1%, or put another way would have depressed annual pay increases by about a penny an hour. Impacts in other sectors are even smaller. The conclusion is that while migration may have had some small negative impact on wages for the low paid, other factors, positive and negative (technological change, policies on tax credits, the National Minimum Wage) were far more important.

Beyond the aggregate impacts on employment and wages, there may also be other impacts on labour market institutions and structures, positive and negative, particularly if migration results in labour market segmentation ([MAC, 2014](#)). There is indeed some evidence of dual or segmented labour markets in some low paid sectors, for example food and drink manufacturing, where migrants are disproportionately represented in the seasonal, temporary or flexible workforce. However, while EU migrants, particularly from the newer Member States, are concentrated in some low-skilled sectors and low-paid occupations, this is of course by no means true of all EU migrants. Particularly in London, EU migrants make up a large proportion of employees in finance and business services, occupations which are generally highly skilled and highly paid.

### **Impacts on productivity and growth**

The impact of immigration on productivity and hence (per capita) growth is methodologically harder to estimate. It has been argued that EU migration is likely to have depressed productivity growth, either through a simple “batting average” effect (since new EU migrants are on average paid less than the average of the current workforce) or, more tenuously, because the availability of relatively low-paid but flexible workers reduces the incentive to invest in labour-saving and/or productivity-enhancing equipment. There is however little evidence to substantiate these claims: the UK’s recent abysmal productivity performance coincides with the financial crisis and its aftermath (which of course in turn led to a fall in migration) rather than the earlier sharp rise in migration.

By contrast, this is growing empirical evidence of positive impacts from migration on productivity. A recent literature uses cross-country evidence to estimate the impact of migration on growth and productivity in advanced economies. This includes [Boubtane, Dumont and Roualt \(2015\)](#) and [Jaumotte et al, 2016](#). Boubtane et al find that migration in general boosts productivity in advanced economies, but by varying amounts; for the UK, the estimated impact is that a 1 percentage point in the migrant share of the working age population leads to a 0.4-0.5% increase in productivity. This is higher than in most other advanced economies and reflects the relatively high skill levels of migrants to the UK.

Jaumotte et al find that a 1% increase in the migrant share of the adult population results in an increase in GDP per capita and productivity of approximately 2 percent. This result is consistent across a variety of empirical specifications. Perhaps surprisingly, the estimated aggregate impacts of high and low skilled migration are not significantly different (although the distributional implications are). One possible, partial explanation is that low skilled migration appears to increase labour force participation among native women (a result also found in individual country studies, cf. Barone and Mocetti, 2011). This is one example of the type of complementarity or spillover effect by which migrants working in low-skilled occupations might indirectly increase productivity and output and is likely to be relevant to the UK.

The implication is therefore that migration to the UK is likely to have boosted productivity and per capita GDP. See [Forte and Portes \(2016\)](#) for a more detailed discussion.

### **Fiscal and public service impacts**

Given the labour market impacts, fiscal impacts too might be expected to be positive. Dustmann and Frattini (2014) found that recent migrants, especially those from the EU, had a more positive fiscal impact on average than natives. Of course, it is hardly surprising that young migrants in employment make an initial positive fiscal contribution; proper assessment of fiscal impacts requires a lifecycle perspective (Preston, 2014). In this context, there are various reasons to expect the impact to still be positive (in particular, migrants tend to arrive after they have left compulsory, publicly financed education).

However, positive net impact on public finances at the national level does not preclude significant impact on demand (and hence cost) at the local level, particularly if funding allocations do not adjust quickly (or at all) to reflect pressures resulting from migration ([George et al, 2011](#)). A notable recent example is the shortage of primary school places in some parts of the UK (especially London); this appears to be largely the result of poor planning on the part of central government, given the rise in the number of young children resulting from recent increases in migration (from both the EU and elsewhere).

But broader concerns about the potential negative impacts on public services appear to be largely unsubstantiated: higher immigration are not associated, at a local level, with longer NHS [waiting times](#) ([Giuntella et al, 2015](#)), and in schools, increased numbers of pupils with English as a second language [doesn't have](#) any negative impact on levels of achievement for native English speaking students ([Geay, Macnally and Telhaj, 2013](#)). If anything, pupils in schools with lots of non-native speakers do slightly better.

This does not mean, of course, that citizens do not associate their experience of deterioration in public service quality and availability resulting from other factors (in particular, cuts in funding during the UK's ongoing fiscal consolidation with the increased demand resulting from higher levels of immigration. The fact that migrants' fiscal contribution could, in principle, at least provide enough funding to cover their marginal impact on demand is not much comfort in practice if those

revenues are in fact being allocated elsewhere, for tax cuts or deficit reduction, as in fact has been the case.

### **Economic impacts of post-Brexit reductions in migration**

During the campaign, there was extensive discussion of the economic impact of Brexit on the UK economy. Detailed projections, under different scenarios for the post-Brexit UK-EU relationship, were produced by HM Treasury, the IMF and OECD, among others. However, none of these projections incorporated the economic impact of changes in migration to the UK; they focused on trade (and to some extent investment) impacts. In recent [work \(Forte and Portes, 2016\)](#) I use a broadly analogous methodology and approach to that used in the trade-based analysis to analyse the impact of Brexit on migration flows to the UK from the EU, produce scenarios for future flows, and provide plausible, empirically-based estimates of the likely impacts on growth, employment and wages.

The conclusion is that the reductions in migration resulting from Brexit are likely to have a significant adverse impact on UK productivity and GDP per capita. The broad scenarios (not forecasts) we depict imply that the negative impacts on per capita GDP will be significant, potentially approaching those resulting from reduced trade. By contrast, the increase in low-skilled wages resulting from reduced migration is expected to be, if at all, relatively modest. The estimates are summarised in the following table:

#### **Cumulative impact of immigration reduction in 2030 (% fall)**

	<b>Scenario</b>	<b>GDP</b>	<b>GDP per capita</b>	<b>Wages</b>
<i>Model 1</i>	<i>Central</i>	2.73	0.92	0.507
	<i>Extreme</i>	4.35	1.53	0.8198
<i>Model 2</i>	<i>Central</i>	5.19	3.38	0.507
	<i>Extreme</i>	8.18	5.36	0.8198

### **Immigration after Brexit**

The issues with respect to a new post-Brexit immigration system are discussed in detail in [Portes \(2016\)](#). However, I thought it might be helpful to the Committee if I briefly set out six common misperceptions about how immigration to the UK might evolve post-Brexit.

## 1. "Even if we end free movement, there's no way we'll ever get immigration to the tens of thousands"

In my view, over the next two years EU migration is likely to fall, for several reasons:

- Even before the referendum, employment growth in the UK had slowed (meanwhile unemployment in the rest of the EU is falling).
- Moreover, for some countries at least (in particular Romania and Bulgaria), the very high levels of recent inflows reflects the impact of the lifting of transitional controls in 2014; this seems likely to run its course. Even if there had been no referendum, immigration would probably have fallen back from its peak earlier this year.
- The referendum could make this fall much sharper. This is not just because of the overall economic impact of Brexit on growth, output and employment. A Brexit-related slowdown will hit some sectors and regions – such as the finance sector in London – that employ large numbers of EU migrants. Moreover, migration from some EU countries appears to respond to exchange rate changes, presumably because migrants compare the salaries that they could earn at home to what they can earn here.
- To these economic reasons must be added legal and psychological ones. There will be a prolonged period of uncertainty before we know exactly what Brexit means both for EU citizens here now and new arrivals. If people cannot plan with any confidence they are less likely to come and less likely to stay. Moreover, not only have we seen isolated but very unpleasant [outbreaks of racism](#), but there is a much more widespread sense that they are no longer welcome.

Combined with likely falls in non-EU migration as well, immigration might fall faster than anyone expects.

## 2. "The government has rejected the Vote Leave option of an 'Australian-style points based system'

It appears certain that we will move to a system where the UK government sets out some criteria (skills, occupations, salaries, numerical limits etc) for work-related migration from the European Economic Area, as it does at present for non-EEA migration. Such a system could well be described as an 'Australian-style' system, since this is what Australia (like many other countries) does; it could also be described as a work permit system, since those who qualify receive permission to work here. This debate tells us essentially nothing about what the overall system will look like post-Brexit.

In fact, there are two key, and conceptually separate, choices:

- Will the new system give a considerable degree of preference to EEA citizens, even if not full free movement, compared to those outside the EEA, or will it

treat all non-UK citizens equally (with the possible exception of Irish citizens)?

- Will the new system be relatively liberal, accepting perhaps an increase in skilled migration from outside the EEA at the same time as reducing EU migration? Or will it be restrictive, with the overarching objective still being to hit the government's target to reduce net migration to the tens of thousands?

### **3. "Ending free movement means we'll 'take back control' of our borders"**

Immigration control (of EEA nationals) does **not** (mostly) mean **border** control. It does not seem likely that we would restrict EEA nationals' right to enter the UK without a visa. A fully fledged visa regime for EEA nationals would be hugely disruptive to trade, travel and tourism - even leaving aside the obvious point that this would mean UK nationals would require visas to travel to continental Europe. And it would mean that they were treated worse than, for example, Americans or Australians, who do not need a visa to enter the UK.

So EEA nationals (like UK nationals) already have their passports checked at entry and this will continue; equally, they are only denied entry in rare circumstances. This means that control over how many and which EEA nationals are allowed to work in the UK will not, in practice, be applied at the border in the vast majority of cases. As with other non-visa nationals, like Americans or Australians, it will be applied in the workplace; employers will have to verify that EEA nationals are entitled to work in the UK, just as they currently do for non-EEA nationals. Talking about 'border controls' for EEA nationals or reintroducing 'controls' over 'who enters the country' misses the point almost entirely.

### **4. "To stop EU migrants 'sneaking in through the back door' we'll need border controls with Ireland"**

It follows from 3 that this is a non sequitur. Why would someone who plans to work illegally in the UK go via Dublin when she can simply fly to Stansted? There will be issues relating to people coming via Ireland (third country nationals, as now, and security concerns) but we won't be controlling migration on the Irish border. The need for control on movements of goods (assuming we leave the Customs Union) is a much more difficult issue.

### **5. "Ending free movement means we'll be able to have 'only the [high-skilled] immigrants we want/need' "**

It is often claimed that if the UK could impose restrictions on migration from the EU, the impact would be to reduce migration for unskilled and/or low paid work, while having no impact on skilled migration; possibly even allowing an increase. This ignores the nature both of migration systems and outcomes. No system can select perfectly, or even close to it. The view that we can devise an immigration system that allows in those, and only those 'immigrants that have the skills we need' is fantasy.

Moreover, it also ignores the fact that migration is not just a matter of the UK choosing migrants; migrants have to choose us. Even if we wish to remain open to skilled migrants from elsewhere in the EU post-Brexit, they may not choose to come here (or remain here). Almost any system will increase in bureaucracy and reduce the rights of those who come; including those of their spouses to work and study, of their children to citizenship, access to the NHS and so on. And beyond this are the wider psychological and attitudinal consequences of Brexit. Skilled migration will fall – maybe by a lot.

## **6. “Leaving the EU will enable us to reduce burdens on business – especially damaging employment rules”**

The government has already said it doesn’t intend to use Brexit to make any significant reductions in the protections or rights of British workers. But ending free movement will definitely result in a large increase in the regulatory burden on business. This follows from 3; employers will be at the sharp end of enforcing an end to free movement of workers. They will have to check the rights of EU citizens to work, just as they do now for non-EU citizens. This won’t be easy – most of the 3 million already here will be given some sort of permanent residence rights, while there will be a new system for new arrivals; itself a new burden. Almost certainly there will be a significant increase in illegal working, and the Home Office will need to devote more resources to enforcement, resulting in further burdens. The size and role of the state is likely to expand, not contract. .

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