

# BRIEFING: OVERVIEW OF EVIDENCE ON ECONOMIC IMPACTS OF EU IMMIGRATION

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## OVERVIEW

As part of a research report on [UK Public Attitudes to the Economic Impacts of EU Immigration](#), published by NIESR and Birkbeck, University of London, in October 2018, we reviewed the existing literature on the economic impacts of EU immigration. We have updated this with the most recent evidence thanks to the support of the ESRC through its Impact Acceleration Award. The following topics are covered in the briefing:

- Labour market impacts (employment and wages)
- Productivity impacts
- Fiscal and public service impacts
- Impacts on prices and housing

## KEY TAKEAWAYS

- EU migrants have **no or little impact on overall employment and wages**. There is some evidence of negative impacts on low-skilled and low-paid, but these impacts are very small.
- EU migrants have a **positive impact on public finances**, but it is unclear whether this ‘migration windfall’ has been used to sufficiently offset pressures to public services caused by the population increase resulting from migration.
- Despite the increase in population, there is **no evidence that EU migration has had negative impacts on public services**, but there is a lack of research in this area.
- There is some evidence that EU migration leads to **higher labour and firm productivity**.
- The **impact on house prices and access to social housing depends critically on adjustments to supply**. In recent decades, policies on housing construction have not met excess demand.
- Overall, the evidence shows **no or little labour market impacts**, and **positive impacts on public finances, growth and productivity**. But **economic impacts of migration cannot be seen in isolation from government policies**, particularly on public services and housing.

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## Labour market impacts (employment and wages)

- According to economic theory, the impact of migration on native workers' wages and employment critically depends on **whether migrants' skills are complements or substitutes to the skills of the existing native workforce** ([Dustmann et al., 2005](#); [Ruhs & Vargas-Silva, 2018](#); [Devlin et al., 2014](#); [McGuinness & Hawkins, 2016](#); [George et al., 2012](#)). If migrants and natives possess similar skills, migration would lead to an increase in competition in the labour market, which would drive down wages. Depending on natives' willingness to accept a pay cut, **this may lead to higher unemployment or lower wages**. Alternatively, if the skills of migrants are different and complementary, and their skills are put into use, all workers would experience an increase in productivity, **leading to higher native wages**.
- **Immigration increases the number of workers looking for jobs, but at the same time migrants expand the consumer demand for goods and services, leading to more investment and in turn greater demand for labour**. Depending on the balance between those two effects, immigration can, in theory, lead to either higher or lower wages and employment ([Ruhs & Vargas-Silva, 2018](#); [Portes, 2018](#)).
- Ultimately, the **labour market impact of immigration is an empirical issue, and is likely to vary over time** ([MAC, 2012](#); [Portes, 2018](#)).

### Impact on employment

- Empirical studies have found that EU migration, including migration from recent EU accession countries (A2 and A8), has **little or no impact on the employment of UK native workers** ([Becker and Fetzer, 2018](#); [MAC, 2012](#); [2018](#); [Wadsworth et al., 2016](#); [Lucchino et al., 2012](#); [Lemos, 2010](#); [Lemos and Portes, 2008](#); [Gilpin et al., 2006](#); [Dustmann et al., 2003](#); [2005](#)).
- Some studies have found **very small negative impacts on low-skilled and those with intermediate education**, and more positive effects on those with more advanced education such as A-levels and university degrees ([Dustmann et al., 2003](#); [2005](#); [Nathan, 2011](#)).
- Evidence from other high-income countries show that **low-skilled migration leads to a re-allocation of native low-skilled workers to higher skilled occupations and tasks** ([Peri and Sparber, 2009](#); [D'Amuri and Peri, 2014](#); [Foged and Peri, 2015](#)), but **no UK evidence exists that demonstrates this effect**.
- There is mixed qualitative evidence about whether employers prefer migrant workers for certain types of jobs. Some studies suggest that **some migrant workers are more attractive employees** due to their perceived high work ethic, especially in low-paid jobs with unattractive working conditions and irregular working hours, and due to their higher literacy and numeracy skills for low-skilled jobs ([Ruhs & Anderson, 2010](#); [Scott, 2013](#); [McCullum & Findlay, 2015](#)). However, similar studies covering a range of sectors suggest that **employers don't discriminate between**

natives and migrants based on perceived skills, but that **low-skilled jobs simply attract fewer applications from British natives** ([Green et al., 2013](#); [Rolfe, 2017](#); [MAC, 2018](#)).

### **Impact on wages**

- Studies have found that EU immigration has **no or little impact on the wages of UK native workers** ([Becker & Fetzer, 2018](#); [MAC, 2018](#); [Nickell & Saleheen, 2015](#); [Dustmann, Frattini & Preston, 2012](#), [Nathan, 2011](#)).
- There is some evidence that the impact may be negative for **lower-waged and low-skilled workers**, but these **effects are very small**, and still uncertain ([Nickell & Saleheen, 2015](#); [Dustmann, Frattini & Preston, 2012](#); [MAC, 2018](#)).
- Overall, **immigration does not seem to be a major determinant of wage growth**, which has been more impacted by factors such as technological change, policies on tax credits and the National Minimum Wage ([Portes, 2018](#)).

### **Productivity impacts**

- In theory, there are a **number of ways migration could increase or decrease productivity** ([Portes, 2018](#); [MAC, 2018](#)). For instance, migrants may be more or less productive than natives, leading to a rise or fall in average productivity, or there may be spillovers that affect the productivity of resident workers. Migration may increase the level of human capital, either directly by increasing skills in the economy, or indirectly by incentivising natives to upskill, but it can also discourage employers to upskill their workforce. Immigration can also play an important role in transferring knowledge between countries.
- The **empirical evidence for the UK is still limited, but generally positive**. Recent studies show that **migration leads to higher firm productivity** ([Smith, 2018](#); [Ottaviano et al., 2015](#)) and **higher productivity in the local area**, particularly driven by high-skilled migration ([Campo et al., 2018](#); [Ottaviano et al., 2015](#); [Rolfe et al., 2013](#)).
- Another recent study shows that **migrants in high- and low-skilled occupations are more productive than UK-born workers** ([Costas-Fernandez, 2018](#)).
- Cross-national evidence tends to find an increase in productivity across countries, but by varying amounts: the **UK's productivity boost is higher than most other advanced economies**, probably reflecting the relatively high skill level of migrants in the UK ([Boubtane et al., 2015](#); [Jaumotte et al., 2016](#)).

### **Impact on public finances and services**

#### **Impact on public finances (fiscal impact)**

- Like everyone, the immigrant population contributes to public finances through taxes and other contributions. At the same time, migrants use public services and claim benefits thereby incurring

costs. The difference is called the **net fiscal impact**, which essentially shows **whether migrants make sufficient contributions to finance any necessary expansion of public services**.

- Existing evidence shows that **EU migrants have a positive impact on public finances**, both in any single year and over their lifetime ([Oxford Economics, 2018](#); [Dustmann & Frattini, 2014](#); [HMRC, 2018](#)).
- The two most important causes for this positive contribution are **higher employment rates and earnings of EU migrants compared to natives**; and their younger age profile which results in lower **health and pensions expenditures** ([Oxford Economics, 2018](#)).
- The net fiscal impacts **vary by type of migrant group**. EEA migrants, recent migrants and high-skilled migrants contribute most positively, but all migrant groups contribute more than British natives ([Oxford Economics, 2018](#); [Dustmann & Frattini, 2014](#)).

### **Impact on public services**

- A positive impact on public finances does not necessarily exclude the possibility of negative impacts on the quality and availability of public services, both on the national and local level, particularly if funding allocations or other policy decisions are not adjusted to reflect increased pressures resulting from a larger population ([George et al., 2011](#), [Portes, 2018](#)). Generally, **if public spending does not increase in response to a rise in population, the quality of those services will fall, as more people use them** ([MAC, 2012](#); [Portes, 2018](#); [Runge, 2019](#)).
- In their recent report, the Migration Advisory Committee concluded that they were **not convinced sufficient attention had been paid to ensure that the allocation of public funding allowed money to flow to areas where migration has increased the demand for public services** ([MAC, 2018](#)).
- Overall, there is **no evidence that migration has had a negative impact on public services**, but there is a lack of research in this area ([MAC 2018](#)).
- There is a lack of research on the impact on the NHS and social care, but generally **EU migrants contribute more through financial resources and work than they consume in services**, partly due to being younger ([MAC, 2018](#)). One study shows that higher immigration is not associated with higher NHS waiting times in A&E ([Giuntella et al., 2018](#)). There is also a lack of research on the impact on education. EU migrant children are a higher fraction of the pupil population than the school workforce, but **higher number of pupils with English as a second language does not affect parental school choice or attainment among native pupils** ([Geay et al., 2012](#), [MAC, 2018](#)).

## Impact on prices and housing

### Impact on consumer and housing prices

- Migration affects both demand and supply of goods and services, so in theory **migration can affect prices**. Higher migration will lead to a rise in demand for certain goods and a subsequent rise in prices, but there would also be an increase in the supply of workers, which may reduce the cost of production and reduce prices for certain goods. Impact on prices will critically depend on **whether and to what extent supply can respond to changes in demand** ([MAC, 2018](#)).
- Empirically, **few studies have examined the balance between these effects and how markets adjust**. One paper found little evidence of any impact on consumer prices ([Frattini, 2014](#)), while other evidence suggest that migration, particularly from new accession states and non-EU migration, has reduced prices, particularly in middle and lower-skilled personal services ([MAC, 2018](#)). Other evidence suggest that immigration reduced prices of non-traded services between 1997 and 2010, but not afterwards ([MAC, 2014](#)). But **overall, evidence remains inconclusive**.
- The impact of house prices and rents will also depend on how housing supply adjusts to the changes in demand. **Given UK supply of housing has increased more slowly than demand, any population growth such as migration will be expected to increase housing costs** ([MAC, 2018](#), [MHCLG, 2018](#), [OBR, 2014](#)). As such, the impact cannot be seen in isolation from other government policies such as housing construction, and other factors should also be taken into account, such as the contribution of migrant construction workers ([MAC, 2018](#)). Generally, the relation between migration and housing costs is complex, as housing costs can take different forms such as prices, rents and social housing, and it is affected by demographic factors, housing supply, income growth, availability of mortgage credit etc. (see [Vargas-Silva, 2017](#)).
- Previous UK studies have found that higher levels of **migration inflows into a local area leads to a, perhaps counterintuitive, reduction in local house prices** ([Sá, 2015](#); [Braakmann, 2013](#)). This can partly be explained by the subsequent out-migration of UK natives, and is observed particularly in areas where migrants are less educated, and among high-paid natives ([Saiz and Wachter, 2011](#); [Sá, 2015](#)). Recent MAC analysis, expanding Sá's analysis, however found that **migration leads to a rise in house prices**, and that there is a **larger impact in areas with high refusal rates on major housing development**, again highlighting the impact of how policies respond to changes in demand ([MAC, 2018](#)).
- Of course, even reduction in prices at the local level would not necessarily be inconsistent with rises on the national level, as the **subsequent out-migration of natives could lead to a rise in prices in other local areas** ([MAC, 2014](#)).

## **Impact on access to social housing**

- EU migrants are eligible for social housing. As there is excess demand for social housing in the UK, positive net EU migration places natives and immigrants in a “direct and visible conflict over access to resource”, and one can say crudely that “one more immigrant household in social housing is quite likely to be one less native household” ([Battiston et al., 2014](#)). **The magnitude of any potential increase in the shortage of social housing will depend on adjustment to supply.**
- Roughly equal proportions of UK-born (16%) and foreign-born individuals (17%) live in social housing ([Vargas-Silva, 2017](#)). But once you compare people with the same demographic and economic circumstances, **immigrants are less likely to live in social housing than natives**, particularly during their first years in the UK, as they are unaware of the possibilities and rules of social sector ([Battiston et al., 2014](#); [Wilson, 2016](#)).
- A number of studies have found **no evidence of systematic discrimination in favour of migrants in social housing** ([Battiston et al., 2014](#); [Rutter and Latorre, 2009](#); [Robinson, 2010](#)).
- Overall, the reduced probability of natives to access social housing in recent years can be attributed **mainly to the reduction of social housing stock, but also to the higher immigrant population and changes to allocation procedures that have reduced discrimination against ethnic minorities** ([Battiston et al., 2014](#)).

## **Notes**

The complete evidence review can be found in the [full report](#). This provides a more comprehensive review of the literature, including weighing up different evidence sources and methodology, and discussing the debates in the literature. The briefing and the report do not cover the migration impacts that are not economic.

## **Other recent NIESR outputs on immigration**

[Immigration Policy from Post-War to Post-Brexit: How New Immigration Policy can Reconcile Public Attitudes and Employer Preferences](#) – open-access journal paper by Rolfe, H., Runge, J. & Hudson-Sharp, N. (2019)

[Brexit and the Health and Social Care Workforce in the UK](#) – report by Dolton, P., Nguyen, D. & Rolfe, H. (2018)

[How schools are integrating new migrant pupils and their families](#) – report by Manzoni, C. & Rolfe, H. (2019)

[Promoting ethnic and religious integration in schools: evidence review](#) – report by Manzoni, C., Rolfe, H. (2019)

[EU migrants contribute to UK public finances, but the money hasn't gone where it's needed](#) – blog by Runge, J. (2019) in *LSE British Politics and Policy*

[Why the government's crackdown on low-skilled migration is at odds with the public mood](#) – blog by Runge, J. (2019) in *LSE British Politics and Policy*

## **Other useful overviews on the economic impacts of EU immigration**

Migration Advisory Committee (2018) [EEA migration in the UK: Final report](#)

Portes, J. (2018) [The economic impacts of immigration to the UK](#)

Ruhs, M. & Vargas-Silva, C. (2018) [The Labour Market Effects of Immigration](#), Migration Observatory

Vargas-Silva, C. & Sumption, M. (2019) [The Fiscal Impact of Immigration in the UK](#), Migration Observatory

Vargas-Silva, C. (2017) [Migrants and Housing in the UK: Experiences and Impacts](#), Migration Observatory