

# The Economics of Migration

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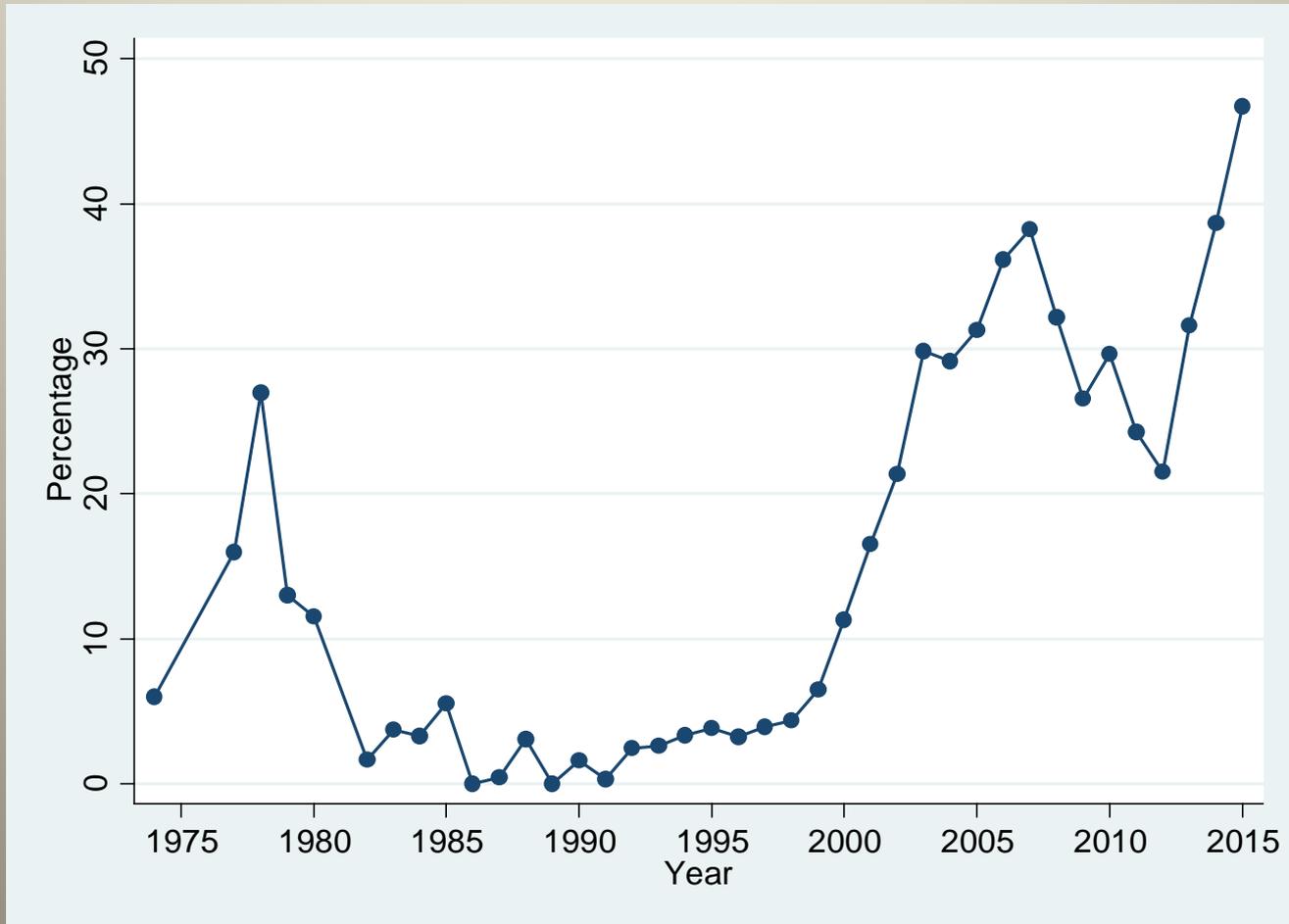
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# Outline of talk

- Some background on
  - Attitudes to migration
  - Levels of net migration
  - In UK and other countries
- Labour market impact of immigration
  - Theory and evidence
- (Briefly) Other impacts of immigration

# Percentage of Respondents thinking Immigration/Immigrants/Race Relations an Important Issue Facing Britain (Ipsos-Mori)



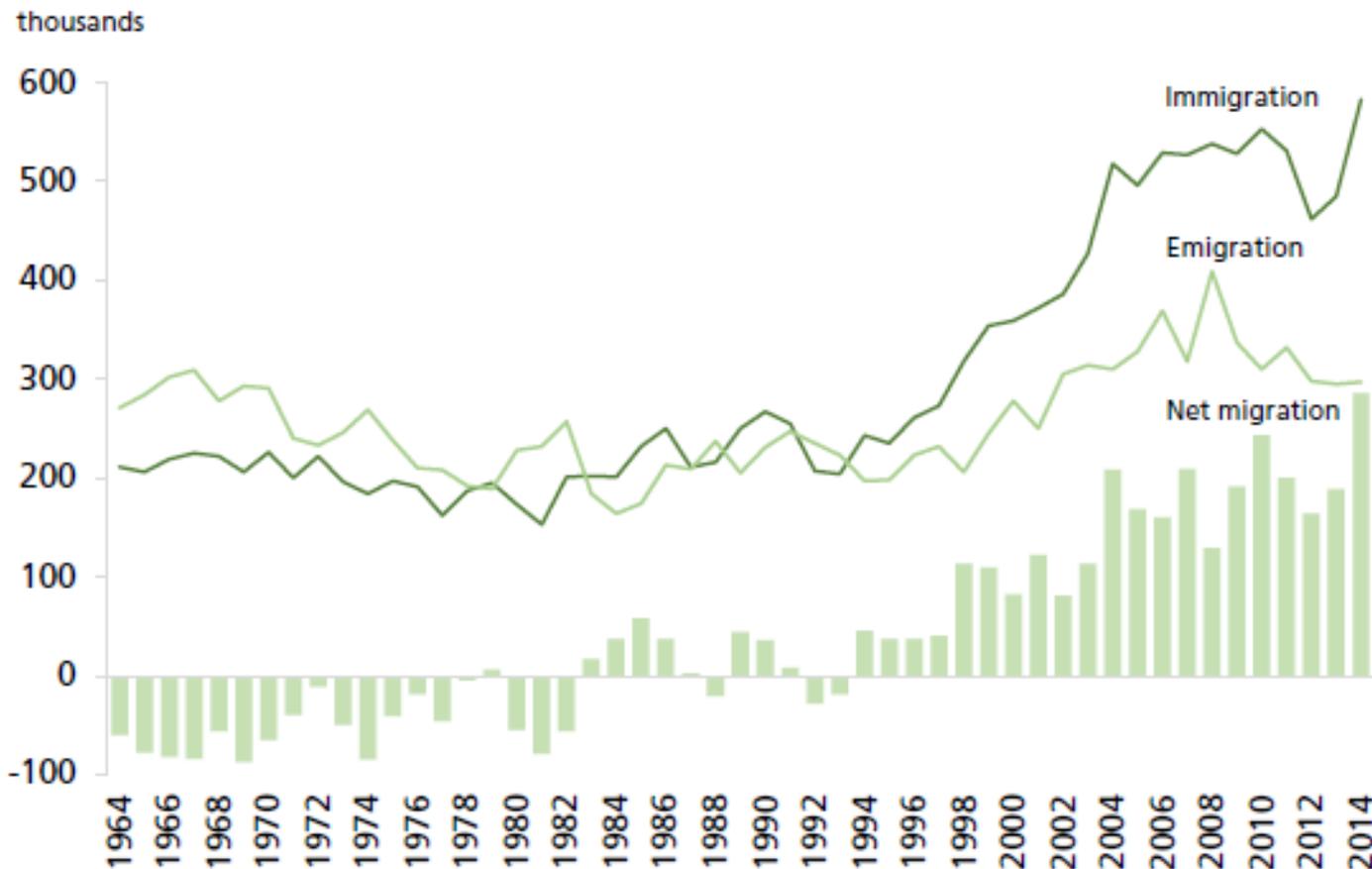
# Is the UK unusual?

Most important two issues facing your country -  
% mentioning immigration

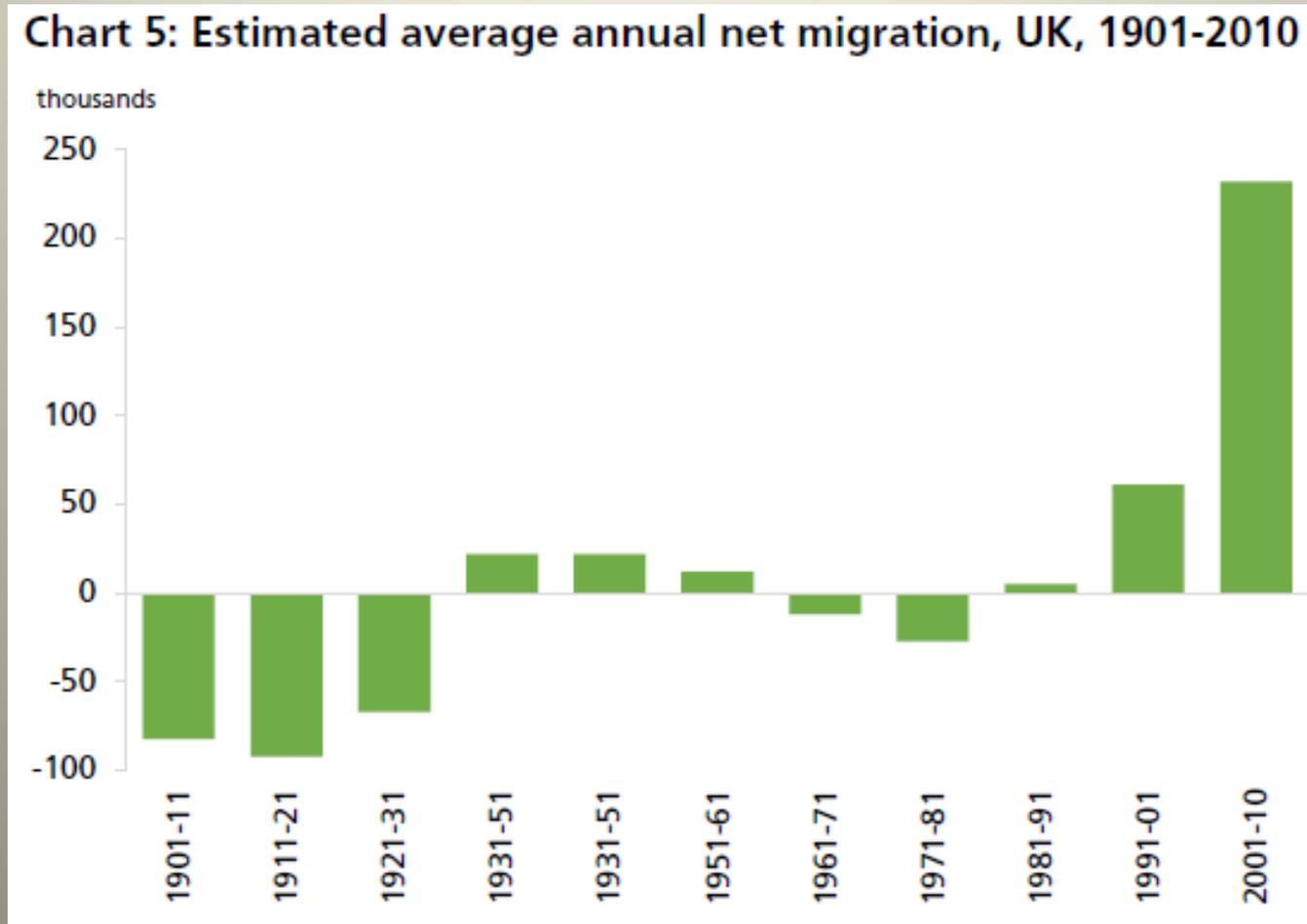
	Autumn 2014	Autumn 2015
UK	38	44
EU28	18	36
Germany	37	76
France	11	22
Italy	18	30
Spain	3	9
Sweden	24	53
Denmark	34	60
Netherlands	8	56

# Very crudely variation in UK attitudes do mirror the net migration figures

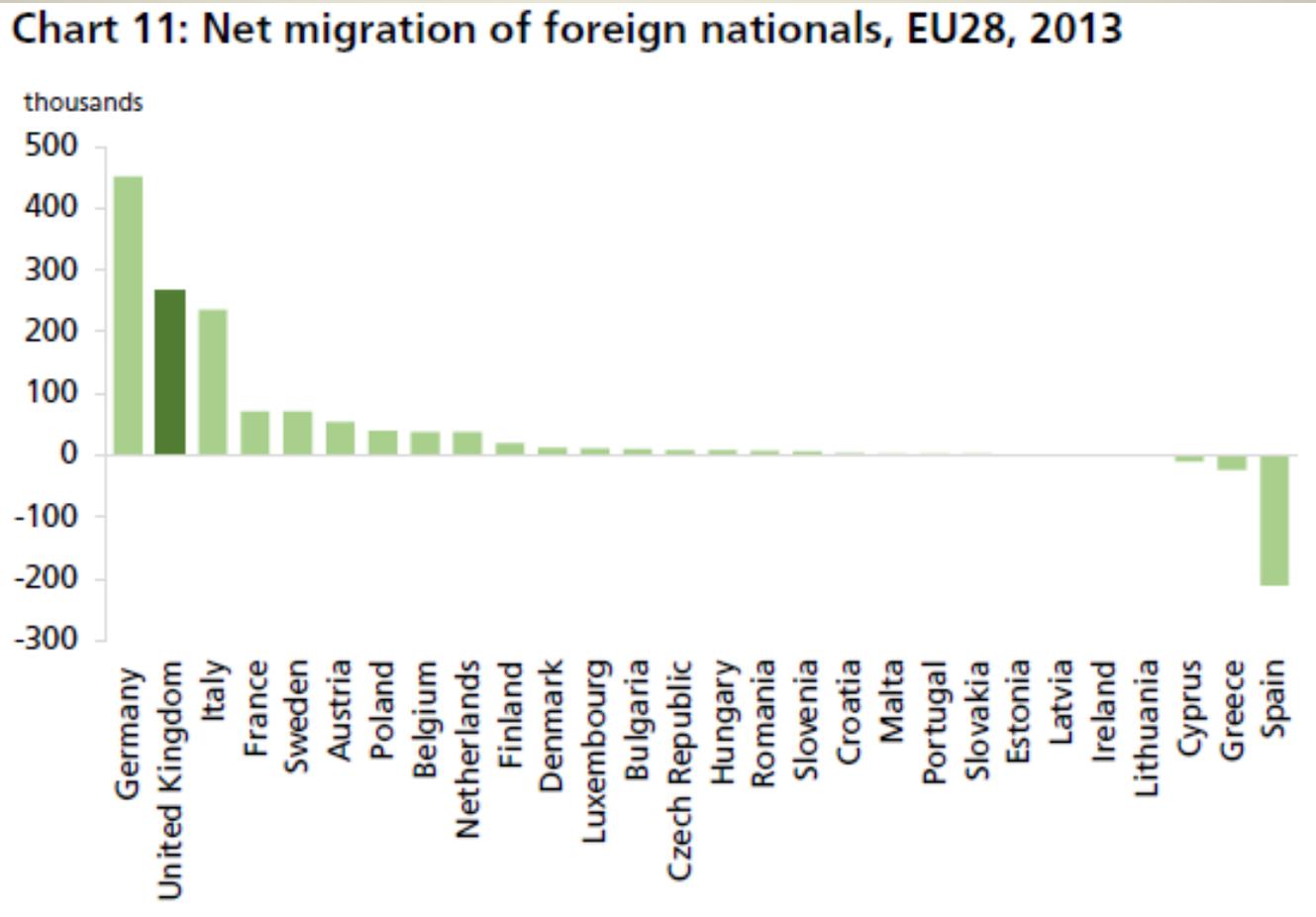
Chart 4: IPS estimates of international migration, UK, 1964-2014



# High levels of net migration relatively new in long-run historical experience



# Net migration: European context



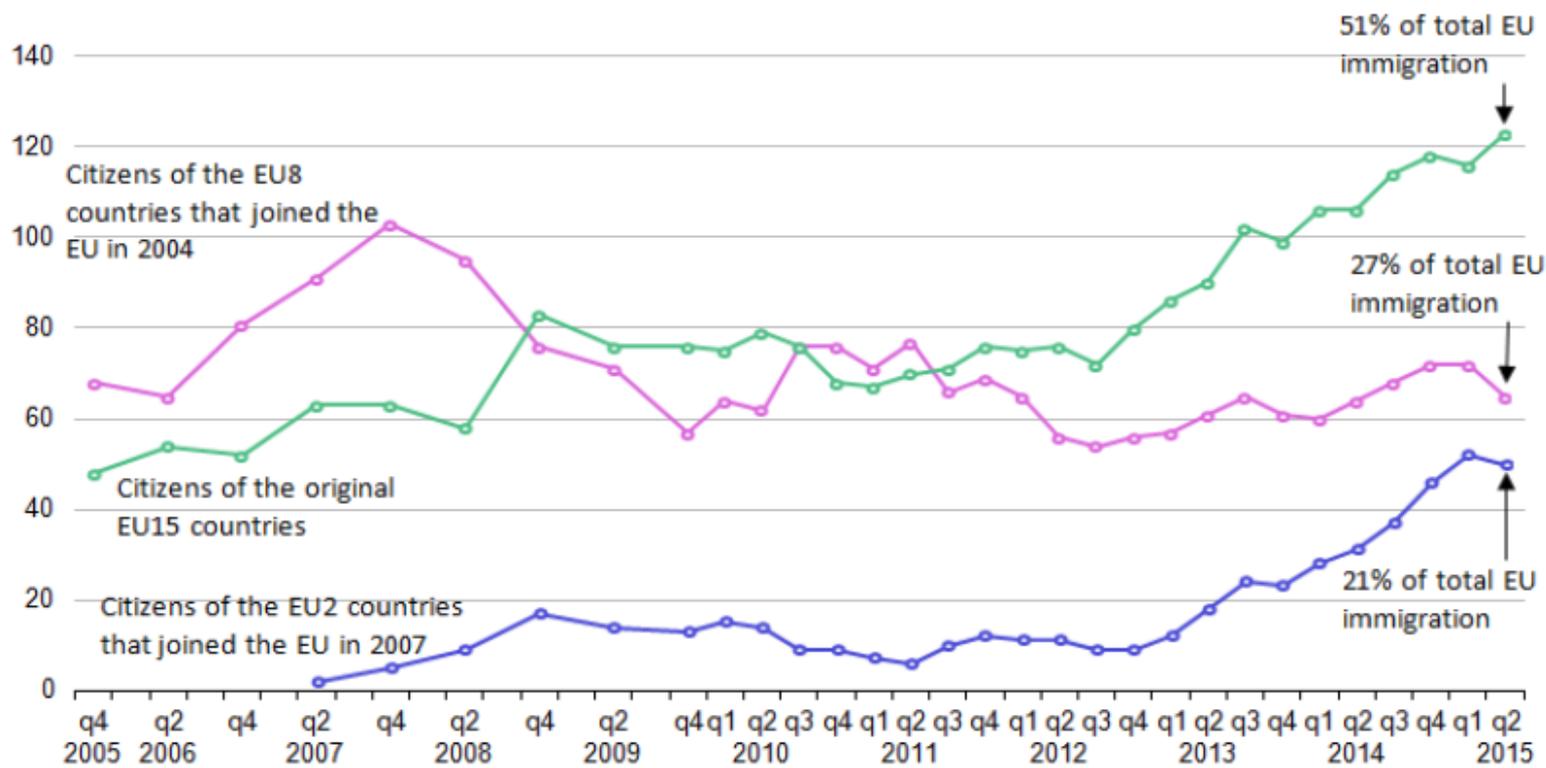
# Important to note that net migration can be very volatile

- 2004-2008, Spain had the largest gross inflow of foreign nationals of any EU country
- Total net inflow of foreign nationals in this period was 2,955,000 (average 724,000 p.a), double the UK level
- Since 2007 net migration of foreign nationals in Spain has fallen dramatically, - in 2013 net emigration of 211,000, highest in the EU
- It is economic boom and slump that is the simplest explanation for this

# Mix of EU Immigrants reflects this

Figure 5: EU immigration to the UK, 2005 to 2015 (year ending June 2015)

Immigration (thousands)



What fraction of the UK population was foreign-born in 2015?

Less than 10%

Between 10% and 20%

Between 20% and 30%

Between 30% and 40%

Between 40% and 50%

More than 50%

# % foreign-born in selected countries

	2014
UK	12.5
Germany	12.2
France	11.6
Italy	9.4
Spain	12.8
Sweden	15.9
Denmark	10.1
Netherlands	11.6

But perception is that proportion of immigrants is higher than it is

- 2013 survey for Royal Statistical Society found the population think 31% of the population are immigrants
- Though public mis-informed about many issues
- And the average response when asked about their local level is closer to 20%
- And the public are much more likely to think that immigration is a serious problem for the country as a whole than in their local area.

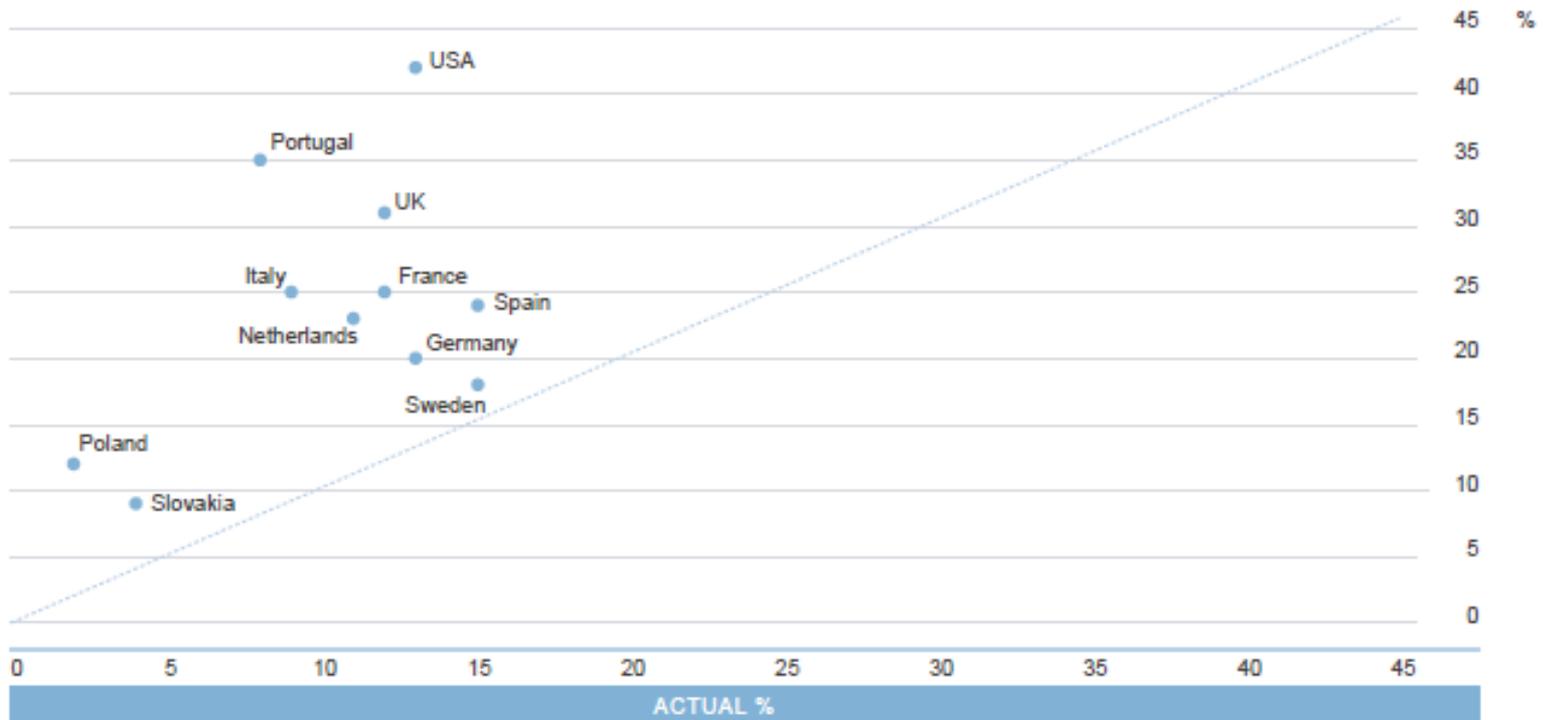
# Follow-up Question

- **According to the last Census in 2011, the percentage of the UK population that was born in another country is actually 13%. Why do you think the percentage is much higher? (asked of those who said proportion was 26% or higher)**
  - People come into the country illegally so aren't counted 56%
  - I still think the proportion is much higher than 13% 46%
  - What I see in my local area 36%
  - What I see when I visit other towns/cities 34%
  - I was just guessing 23%
  - Information seen on TV 19%
  - Information seen in newspapers 16%
  - The experiences of friends and family 10%

# Again, UK not unusual

**Figure 1.19: Estimated vs actual foreign born population**

In your opinion, what percentage of the total (COUNTRY) population are immigrants? You can answer any number between 0 and 100.



# The Labour Market Impact of Immigration: Theory

- The simplest view of immigration is:
  - it increases the number of people in the country
  - It increases the labour force (to the extent the immigrants want to work)
  - It alters the mix of skills in the labour market

If you are a worker how are your labour market prospects affected by entry of a migrant?

- Key idea is that it depends on whether the immigrant is a substitute for you or a complement to you
- A substitute is a worker who does a job like you so supply of people like you increases
  - We might expect this to be to your disadvantage
- A complement is a worker who is the type of worker you work alongside e.g. managers and production workers
  - We might expect this to be to your advantage

# Direct/Indirect Substitutes/Complements

- Easiest to think of substitutes/complements within the workplace – this is the direct effect
- But also indirect substitutes/complements
- E.g. if immigration means some goods/services become cheaper this is:
  - to the disadvantage of workers who produce competing goods whose demand falls
  - To the advantage of workers who produce complementary goods whose demand rises

# Indirect Complements may be particularly important

- If immigration leads to some goods becoming cheaper:
  - consumers have more money to spend on other things
  - As they buy other things the demand for the labour of a wide range of workers goes up
- As is the fact that immigrants spend money as well as work so increase the demand for labour even as they increase the supply
- But indirect complements may be largely invisible

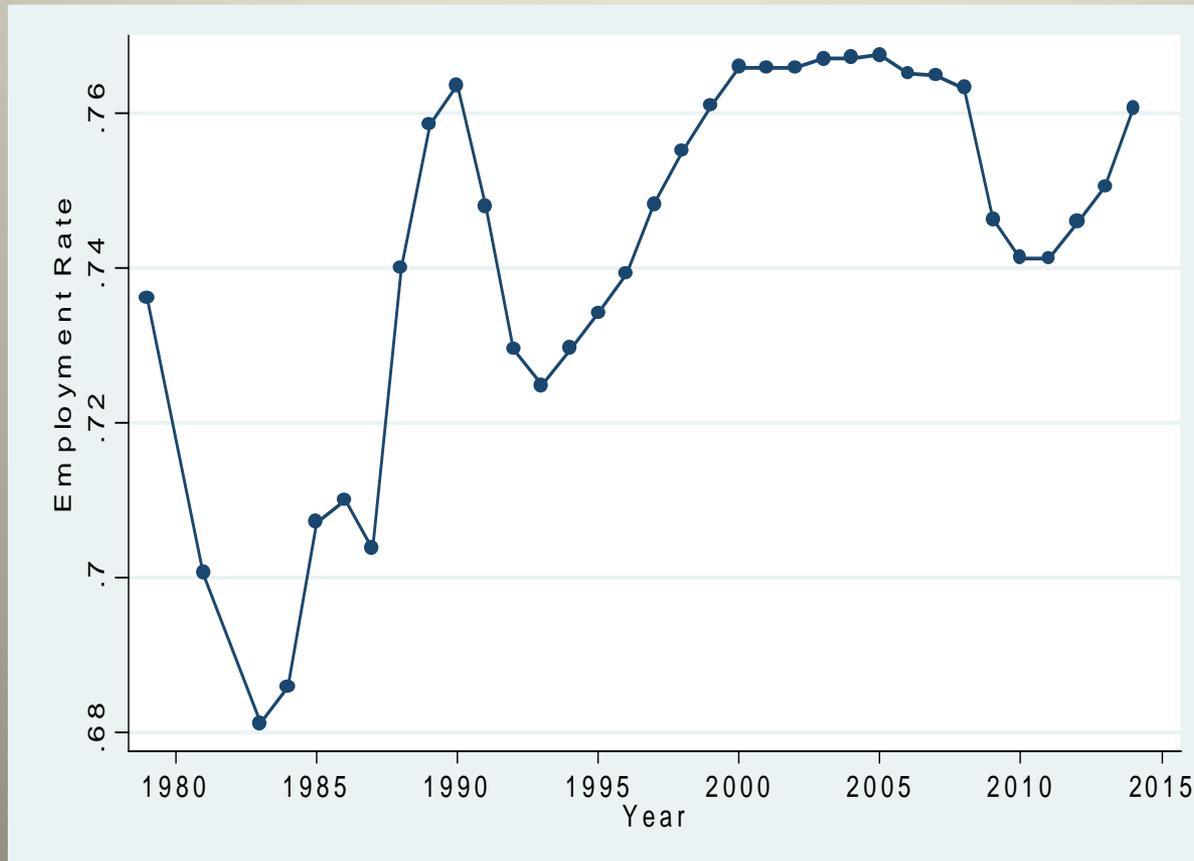
# Summary of theory

- There are likely to be some workers who gain from immigration, others who lose
- None of this says that any of these effects will be particularly large
- What does the evidence suggest?

# Empirical Evidence on the Labour Market Impact of Immigration

- A lot of studies – will not review them all in detail here
- Some find positive overall effects of immigration, some find negative effects.
- Some find positive effects for some groups, negative effects for others
- But none of the estimated effects are very large
- This contrasts with much of public opinion which seems convinced the effects are very large and negative
- Lets look at some high-level evidence

# Employment Rate of UK-born, aged 16-59



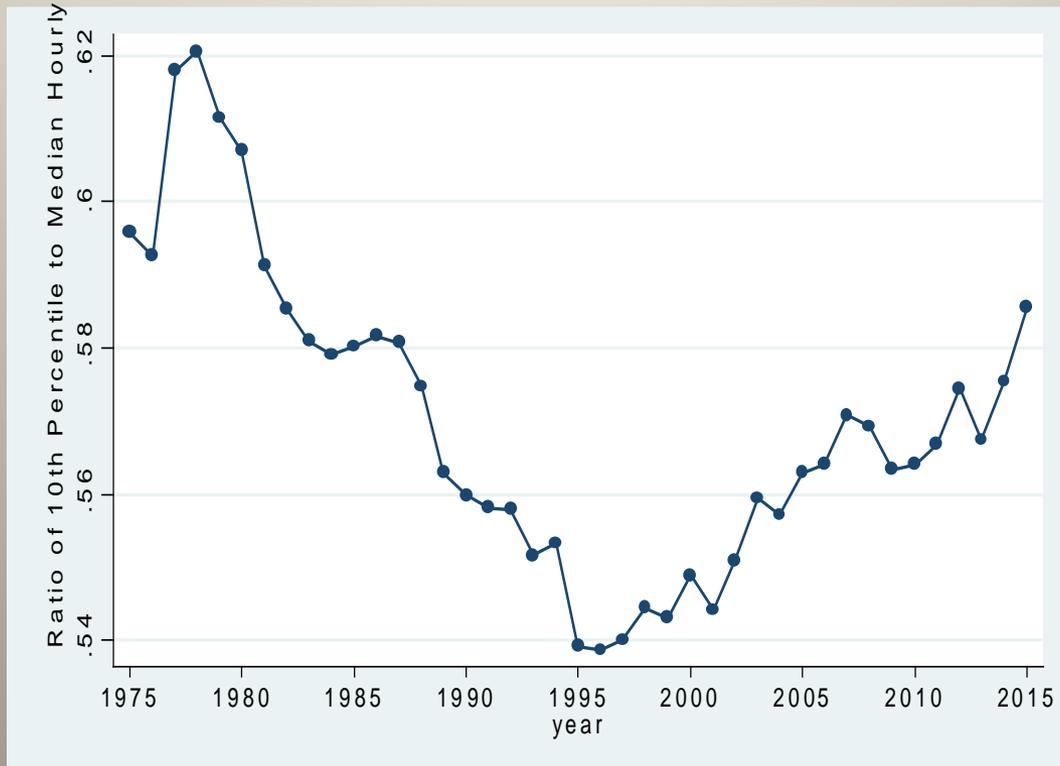
# Summary

- Period of rapid increase in net migration was a period in which overall employment rate was very high and stable by historical standards
- Employment rate deteriorated in financial crisis (as it had done in previous recessions) but high net migration does not appear to have prevented a recovery in recent years
- It is possible that the employment rate would have been even higher in the absence of net migration but not very plausible this would be a large effect
- But perhaps it is low-skilled workers who have suffered the most?

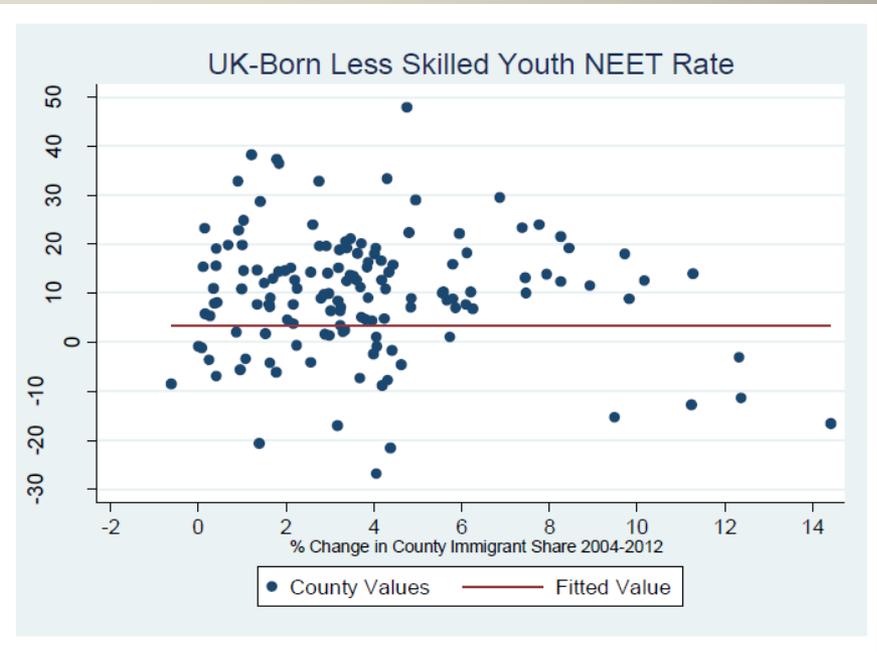
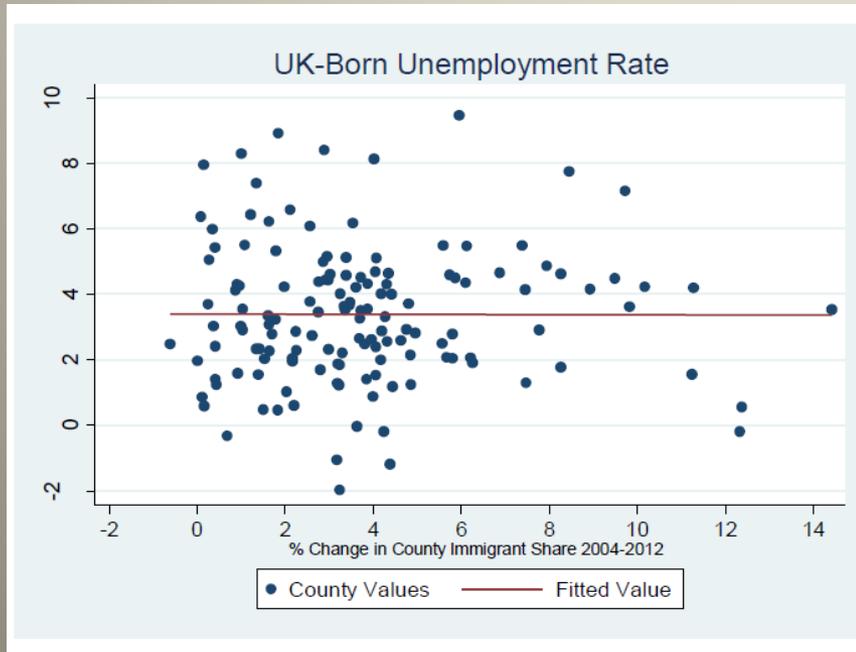
# Employment Rate for the UK-born with no qualifications



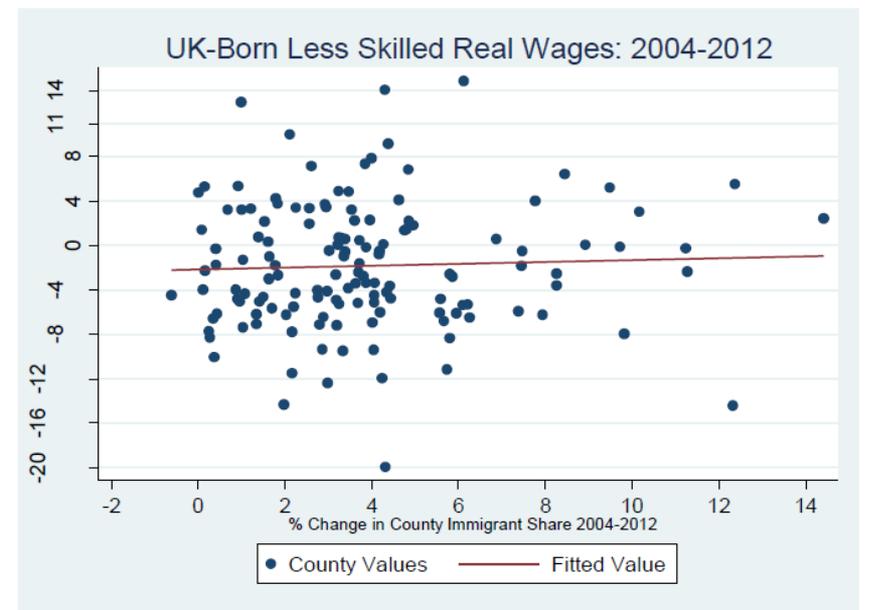
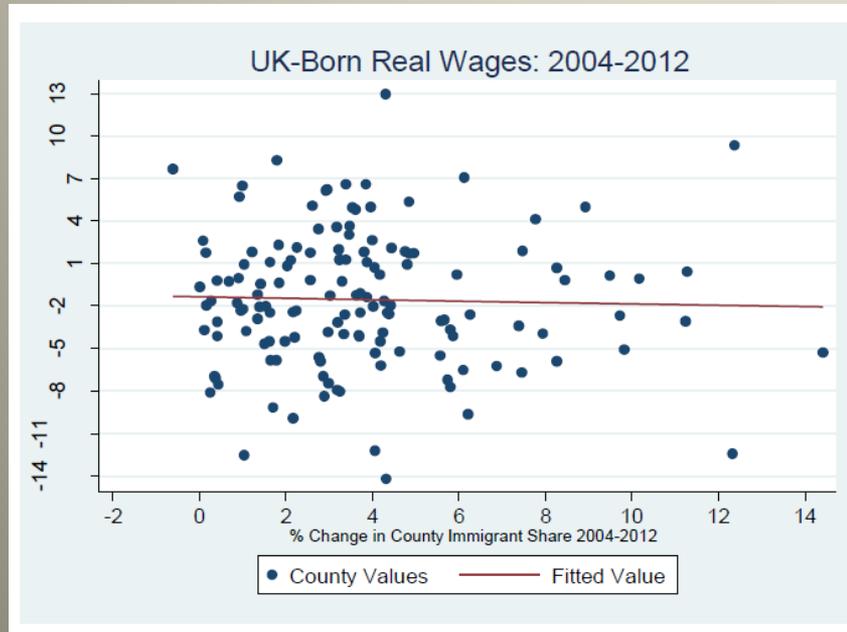
# Hourly Earnings of the bottom 10% relative to the median



# No obvious relationship between change in unemployment rate and change in immigrant share (Wadsworth, CEP election briefing)



# No obvious relationship between real wages changes and change in immigrant share (Wadsworth, CEP election briefing)



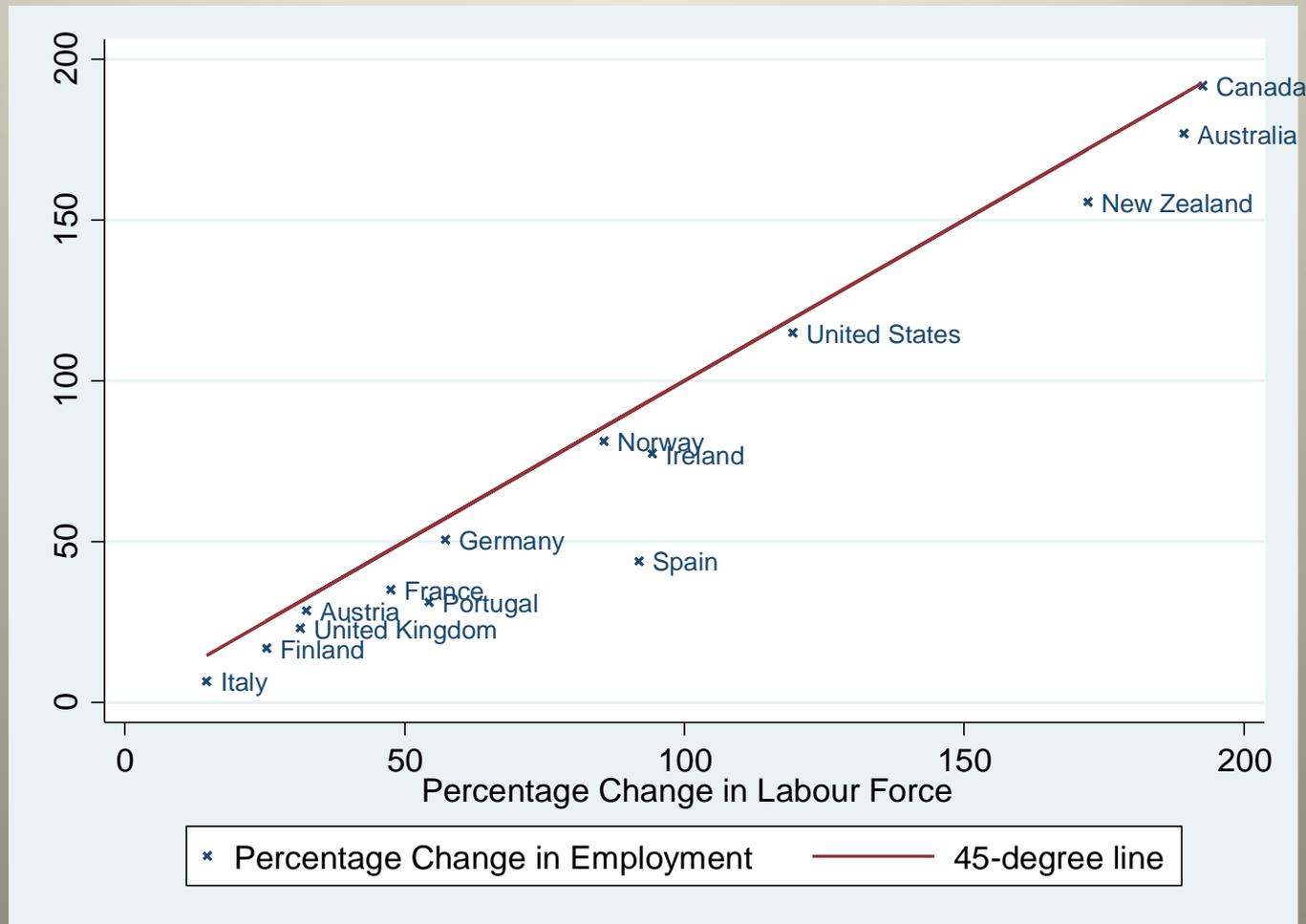
# Has Immigration harmed the labour market prospects of low-skilled UK workers?

- In terms of employment rates there has been a long-run deterioration (remember that share of working-age population has gone from 55% to 10%)
- In terms of earnings the last 20 years has seen an improvement for the lowest earners (relative to the median) – probably because of the minimum wage
- Although living standards fell a lot for everybody in the financial crisis
- There are some studies finding a negative effect but it is not large

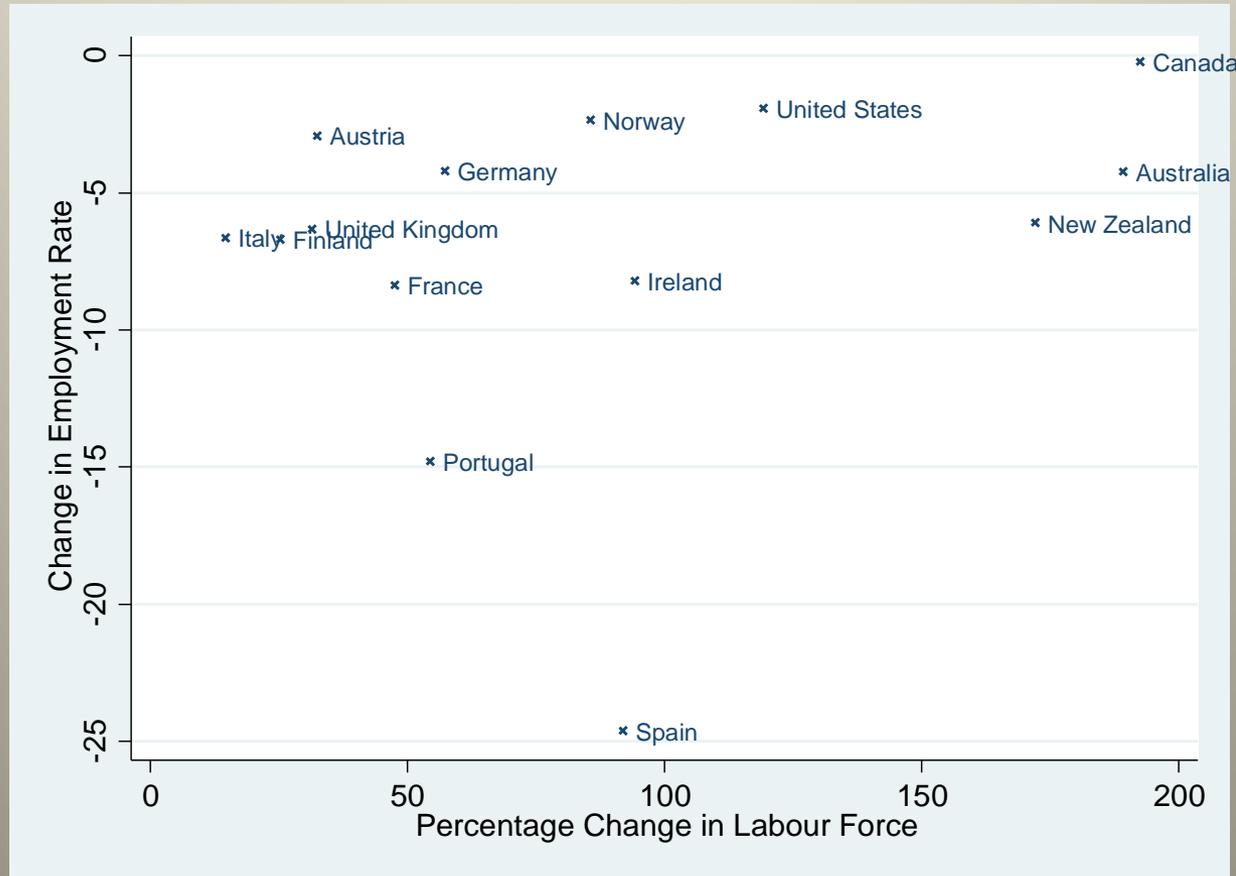
# An international perspective

- At its simplest immigration increase the labour force in a country.
- Countries differ a lot in the rate at which their labour forces have increased over long periods of time because of:
  - Net Immigration
  - Natural population growth
  - Entry of women into the labour force
- But employment strongly follows increase in labour force
- No relationship between change in employment rates and growth in labour force

# Relationship between change in employment and labour force, 1960-2013



# And there is no relationship with change in employment rates



# How to interpret this

- Increase in labour supply naturally leads to an increase in labour demand
- But it seems very hard to persuade people of this fact – many have the strong belief that there is a fixed number of jobs to go round
- Perhaps this is one's experience if one applies for a job and does not get it – if only the successful candidate had not applied, the job would have been mine!
- But labour economists call this the 'lump of labour fallacy' – the number of jobs in an economy is not fixed and the evidence is very clear on this point

# Summary of theory and evidence

- Labour market impact of immigration has probably been positive for some workers, negative for others
- Overall, very small gain or loss for UK-born workers
- Survey evidence suggests this perspective is shared by UK population

Would you say it is generally bad or good for the UK's economy that people come to live here from other countries?

	<b>Bad</b>	<b>Neutral</b>	<b>Good</b>
Total	47	24	29
Less than lower secondary education	58	23	19
Lower Secondary	52	26	22
Upper Secondary	48	23	29
Tertiary	34	23	43

# What about the migrants' perspective

- There typically are clear gains for immigrants from poorer countries:
  - E.g. annual wages in Poland about 56% of UK levels at purchasing power parity
  - Gap even larger for workers from developing countries
  - But most of these potential migrants are not so poor that they could not afford to migrate

This disparity between the gains to migrants themselves and to natives is what leads to the policy 'problem'

- Natives have little/no incentive to want to allow large numbers of migrants into the country
- There are many potential migrants who would like to enter the country
- So the demand for migrants by host country almost inevitably much smaller than the supply of potential migrants

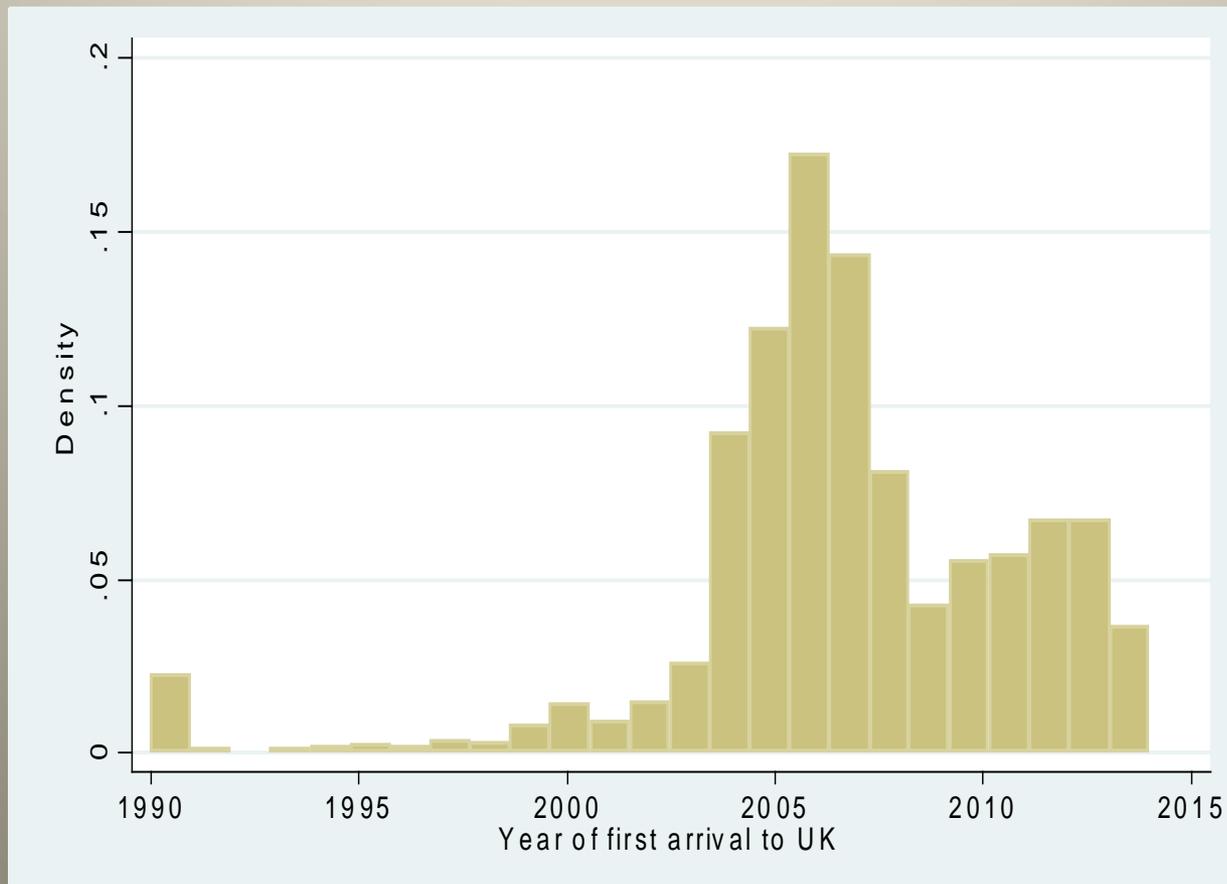
# How Big is the Supply of Potential Migrants?

- Our best evidence comes from the Gallup World Poll from 146 countries
  - 630 million adults would like to move (14% of world population)
  - 48 million plan to move in next 12 months
  - 19 million making preparations to move
- Gallup also computes 'potential net migration index'
  - (number of adults who would like to come – number of adults who would like to leave)/adult population

# Potential Net Migrant Index

	2007-2009	2010-2012
UK	62	53
Germany	14	23
France	60	38
Italy	23	8
Spain	74	43
Sweden	78	68
Denmark	28	32
Netherlands	17	17
Switzerland	150	136
United States	60	45

But even though the potential supply of migrants is high, there are often natural limits to numbers e.g. the Distribution of Year of Arrival of Polish Immigrants in the UK in 2015



# Other economic impacts of migration

- I have focused on labour market impacts of migration
- But other factors are important in influencing views on migration

Would you say that the UK's cultural life is generally undermined or enriched by people coming to live here from other countries?

	<b>Undermined</b>	<b>Neutral</b>	<b>Enriched</b>
Total	43	19	38
Less than lower secondary education	56	21	23
Lower Secondary	47	22	31
Upper Secondary	42	19	39
Tertiary	30	16	54

Is the UK made a  
worse or better place to live by people  
coming to live here from other countries?

	<b>Worse</b>	<b>Neutral</b>	<b>Better</b>
Total	47	25	28
Less than lower secondary education	61	22	17
Lower Secondary	53	26	21
Upper Secondary	45	28	27
Tertiary	33	25	42

# What are the other important economic effects?

- Main effect of net migration is to add to population
- This puts pressures on:
  - Housing
  - Public services
  - congestion
- And inevitably leads to changes in the character of some neighbourhoods (immigrants have to live somewhere)

# Population pressures

- Increasing population will put pressure on housing market if we fail to build new housing
- But there is no good reason not to build new housing
- And the immigrants themselves often bring the skills to do so
- Net migration does cause 'growing pains' which can be managed more or less effectively

# Community Cohesion

- People care about their local community
- But cannot control the ways in which it changes
- Not surprising that changes driven by migration are of concern to many people

# Conclusion

- High net migration into the UK reflects the relative success of the UK economy and wider society.
- There is little evidence of large adverse effects on the UK-born population though little evidence of large benefits either
- It is likely that the supply of potential migrants will exceed the number the UK population are comfortable with for the foreseeable future
- As a result, immigration has to be managed
- As do the consequences of immigration to make sure the benefits are widely shared and the costs not unfairly burdensome on some groups