

# Immigration

A central Brexit issue

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## Introduction: what must be done

A key plank of the support for the Brexit referendum vote was the impact of uncontrolled immigration into the UK where voters worried about the associated negative impact on their access to public services provision in terms of housing, GP medical appointments, stresses on educational provision, social care and effects on jobs availability. It is often the poorer communities who are at the sharp end of all of this. The immigration issue is thus central to the fundamental notion that Brexit is about “taking back control” of our borders, our monetary contribution to the EU’s (unaudited) Budget, the right to strike independent trade deals and freedom from subjugation and compliance with EU law and prescriptive EU regulatory requirements. Indeed, uncontrolled immigration is just not exclusive to the UK as across the EU, there has been a dramatic change in the political landscape in many countries where voters are saying “no” to uncontrolled immigration and “no” to established political parties in Germany, Italy and Sweden to name just a few.

According to Remainers, and as part of the continuing negative drip feed of Project Fear propaganda to thwart the wishes of the Brexit referendum result, immigration control can only result in labour shortages and massive economic disruption as a variety of sectors, seemingly dependent on migrant labour such as the NHS will come to a halt. Previously, Economists for Free trade research has shown that it is uncontrolled unskilled migration which imposes costs on local communities as well as imposing a cost on the UK’s public purse. The Remainers tend to conflate the economic effects of skilled and unskilled migration as many studies produce apparently good results that rely on the effects from skilled, better educated and more highly paid migrants. Research from the Economists for Free Trade shows the cost of wage subsidies (20% of wages) are paid to uncontrolled, unskilled EU migrants. As Esther McVey, the Work and Pensions Secretary, has correctly pointed out, the Remainers cannot simultaneously argue that Brexit will produce economic Armageddon and mass unemployment while also arguing that the UK will need migrants to fill jobs. For skilled labour, there should be no particular impediments from being subjected to existing arrangements for entry into the UK from non-EU countries; and from an economic point of view there is no dispute about the positive impact of skilled labour in contributing to the UK economy.

As Brexit negotiations become more fractious and PM Theresa May’s “Chequers Plan” seemingly a “dead duck” as it totally transgresses what Brexit is about, any deal, should there be one, needs to be clear on the immigration issue.

The PM’s obduracy and unwillingness to consider the “World Trade Option” or “Canada+ deal” is remarkable. But you do not need a trade deal to trade- see Economists for Free Trade (2018). The EU’s biggest trade partners such as the US and China do not have trade deals with the EU and half our trade is under WTO rules anyway. Our biggest trade partner is already the US and we do not have a deal with the US; furthermore, such a deal would be ruled out by sticking with the EU who rule out any independent trade deals under the EU Treaty. A no trade deal would bring a number of economic benefits saving the so-called £39bn “divorce bill”, free the UK from EU protectionism and reduce prices on goods from non-EU countries to the benefit of UK consumers. Professor Patrick Minford has estimated that the net effect of leaving on WTO terms would provide a net boost to the economy of at least 4% of GDP. This would give fiscal space to the perennially gloomy Chancellor of the Exchequer Philip Hammond to deliver a “Brexit bonus”.

Thankfully, it seems that the Cabinet is starting to get the message on immigration though and has agreed in principle that EU migrants will not be given preferential treatment in a post-Brexit world with Government plans aiming to reduce low-skilled migration into the UK. Failure to do otherwise simply from a political point of view would mean the Government paying a price at the next election with the same applying to Labour if it fails to satisfy its Brexit-voting northern constituencies where uncontrolled immigration is a sensitive issue. Some reports suggest that there might be an element of “horse-trading” where so called “free movement of labour” is traded in in order to obtain a trade agreement. The risk of course is that any bending of “red lines” ends up in an unacceptable concession or runs into vetoes from the rest of the EU.

The Migration Advisory Committee (2018) has just published their final 140-page report on the immigration issue and recommendations for the UK’s post-Brexit immigration system. MAC recommends moving to a system in which all migration is managed with no preferential access to EU citizens but with a less-restrictive regime for skilled workers who typically do not put any downward pressure on average earnings in the economy and make a clear positive contribution to the UK’s public finances. In particular and quite importantly, MAC’s report focuses on the need for a more restrictive policy on lower-skilled migration with a guideline subject to a minimum annual salary as defining “low-skilled” (they put this at £30k though this might end up being lower, closer to £20k). This would mean ending free movement, but this would not make the UK unusual as a country like Canada does not have a free movement agreement with any other country but has managed to secure a trade deal with the EU without being subject to the terms and conditions that the EU would like to impose on the UK.

MAC’s report makes the point that the problem with free movement is that it leaves migration to the UK solely up to migrants with UK residents having no control over the level and mix of migration. In addition, MAC’s empirical findings note that between 1983 and 20017 the ratio of working age EU immigrants to the working age UK-born population increased from 1.3% to 7.9% leading to the report’s conclusion that EU immigration over this 34-year period has reduced the employment rate of the UK-born working-age population by around 2 percentage points compared to a scenario with no EU immigration. There is evidence of differential impacts across different UK-born groups with more negative effects for those with lower levels of education. Similar effects are found on the earnings of UK lower-skilled workers. A 1 percentage point increase in the EU-born working age population ratio can reduce UK-born wages for the lower-skilled by up to 0.8%. Ashton, MacKinnon and Minford (2016) estimated the cost to the average UK worker of supporting EU unskilled migrants amounts to £3500 per annum with the cost rising further in areas of dense migrant population. Limiting these costs to the public purse relies on controlling unskilled uncontrolled migration. This is why uncontrolled immigration, besides being a massive political issue, is also a key economic issue.

## **The analysis behind our policy recommendations**

Here we show what our policy analysis is based upon. The full details can be found in Ashton, MacKinnon and Minford (2016).

Unskilled immigrants are generally hired at low (e.g. minimum) wages. With such earnings they pay little tax and probably are net recipients from HMRC via tax credits. In addition, they get benefits in kind from the NHS, free education and social housing. The net balance of the benefits they bring is plainly negative.

**The Table following shows calculations for two types of unskilled immigrant household:**

**Table: Total net annual cost (shown as negative):**

**Single person on National Living Wage 37hrs p.w. amounts £pa**

<u>1</u> <u>TAX&amp;NICs</u>	<u>2</u> <u>Tax Credits</u>	<u>3</u> <u>Housing Benefit</u>	<u>4</u> <u>NHS</u>	<u>5</u> <u>Education</u>	<u>6</u> <u>ChldBen</u>	<u>1-(2+3+4+5+6)</u> <u>Net</u>
£2,063.	£0	£0	-£2,120	£0	£0	-£57p.a.

**Couple plus 2 children, single earner on NLW 37hrs p.w. amounts £pa**

<u>1</u> <u>TAX&amp;NICs</u>	<u>2</u> <u>Tax Credits</u>	<u>3</u> <u>Housing Benefit</u>	<u>4</u> <u>NHS</u>	<u>5</u> <u>Education</u>	<u>6</u> <u>ChldBen</u>	<u>1-(2+3+4+5+6)</u> <u>Net</u>
£2,063.	-£7,829p.a.	-£2,898	-£8,480	-£10,800	-£1,789	-£29,733p.a.

Source: Our calculations, see appendix.

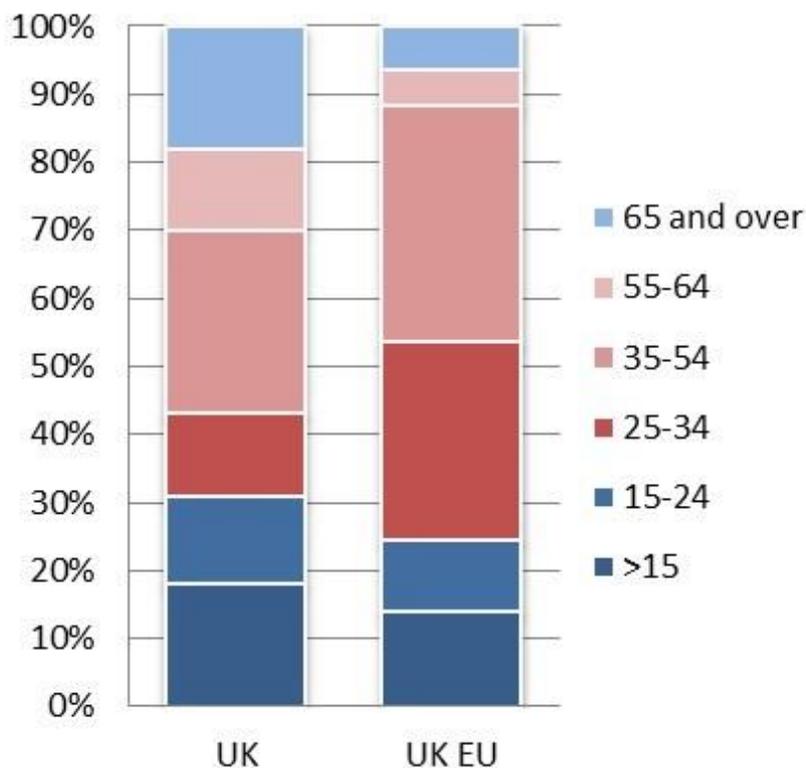
Notice these two calculations show the net cost to UK finances which is the cost to existing UK citizens; this comes about because the worker brings in a 'product' assumed equal to his pay so that this is a net of zero to the rest of the economy (the employer gets the product and pays exactly for it). The net cost then depends on the cost to the public finances. As can be seen this is highly negative. \*

However, inside the economy some other things happen: welfare services net of taxes is transferred from residents to the immigrants (our 'net cost'), and resident workers in services have lower wages which is a transfer to their richer employing households. The last is not a cost to residents as a whole but is to the communities where immigrants locate and compete. The former makes the immigrants better off at the expense of the residents.

We now move on to calculating what in total the cost of the existing unskilled migrant stock might be; it is necessarily somewhat imprecise because we simply do not have detailed enough data on migrant wages, household size, and occupational mix for EU unskilled migrants. What we have are snapshots of the foreign-born generally, from the Census, the Population Survey and the Labour Force Survey. The total stock of EU migrants (including children) was 3 million at the start of 2015. According to the LFS around 40% of all migrants are in unskilled occupations, and we use this percentage for EU-born migrants, giving 1.2 million as the population of unskilled migrants and their dependents.

The following two charts show that the EU migrant population has a different age structure from the general UK population: there are in particular fewer children. The proportion of those under 25 is 24% against 31% for the UK population as a whole.

### Age distribution of national and EU-citizen population in the UK (2013)



We now take the family structure of unskilled UK households (defined as those with household income below 60% of the average equivalised income) and adjust it to reflect this lower proportion of young people, reducing the proportion of children to the same 0.77 of the UK. The result can be seen in the following Table where we show the UK unskilled household shares and the adjusted shares for unskilled EU immigrants.

**Table 2: Household distribution of UK unskilled and assumed EU unskilled population shares (%) of each household type**

Family type	UK	Assumed EU
<b>Households with no children</b>		
Single	36	38
Couples	19	22
<b>Households with children</b>		
All	45	40

Sources: HBAI 2015, FRS 2014/15.

We now calculate as above the cost for each of the EU unskilled immigrant households the total cost to the taxpayer.

Finally, theory says that unskilled wages for other workers will be pushed down closer to the minimum wage; a recent Bank of England report (Nickell and Saleheen, 2015) also estimated that for every 10% rise in the immigrant proportion wages for semi/unskilled services would drop 2%. From the point of view of national welfare this is irrelevant, what matters is the net gain to the UK as above. From the point of view of the local population it is pretty important.

**Table 3: Total cost to the taxpayer of EU unskilled immigrant households**

Family type	No of households (000)	No of immigrants (000)	Total cost (£millions)
Single	456	456	292
Couples, no children	132	264	115
Families, 1 child	60	180	918
Families, 2 children	75	300	2197
<b>Total</b>	<b>702</b>	<b>1200</b>	<b>3522</b>

Source: Our calculations, see appendix table. N.B Couples with children subsumes lone parent families.

So, what we have here is:

- 1) from the national economic viewpoint, we may be paying about £3.5 billion to support unskilled EU immigrants, approximately £3500 p.a. per adult immigrant.
- 2) from the local populace viewpoint, it is a proportionately bigger cost per resident- one that we are unwilling or unable to compensate them for

How big is the cost for the local community? It is much bigger proportionately than it is for the nation. This is because in practice the local community carries all the costs of the benefits in kind- health, education and housing- since no extra supply is made available by the economy as a whole to meet the extra local needs. This in short is what all the fuss is about on the topic of immigration. Local people are hosting large immigrant populations and get no compensation for the extra costs they are bearing.

Just to illustrate how big this difference is, consider first the cost to the existing population of unskilled immigrants, as a cost per head: this is £3.5 billion per annum/31 million employed population= £113 per annum per worker or £2 a week. As a percent of household disposable income per head (about £26000) this represents 0.4%.

Now consider how much it is per head of the working population where immigrants settle. Below is a Table of regional population density of immigrants. Regionally the share varies from a low of 1.6% in the NE to a high 12.5% in the SE. London has a very high share, but it also will have the mass of the skilled EU immigrant population which will on balance be high net taxpayers; this no doubt accounts for the observed lack of general concern about immigration in London.

In the following Tables we show both regional and some selected high local area densities.

### Tables of immigrant shares of local population:

Regions	Share (%)
NE	1.6
NW	7.6
Yorks	5.7
East Midlands	5.8
West Midlands	7.6
East	8.2
London	36.9
SE	13.3
SW	5.2
Wales	2.3
Scotland	4.3
N Ireland	1.5
Total	13.1

Local Authority areas	Share (%)
Luton	17.0
Peterborough	20.6
Boston	17.0
Manchester	25.5
Leicester	33.3
Brent	55.1
Birmingham	22.2
Forest Heath	23.0
Bradford	17.1
Nottingham	19.5
Leeds	11.5

So now consider the burden per head of local population; it is the average burden per head (i.e. for the total population) times the local immigrant density relative to the average density. For the region with the densest immigrant population, say Leicester, this burden per head rises to £287 per annum or about £6 a week. This is without counting any effect on local wages which we have no reliable estimates for. But notice this is equivalent to around 1% of average UK household disposable income per head.

We are dealing here with a burden for the country as a whole but one that is distributed most unevenly around the country. Those bearing the biggest burden, for which they are in no way compensated, naturally feel put upon. In the immigration hotspot areas, the costs borne are higher than the 1% or so addition to the national cost of living. These areas are areas of lower than average disposable income and so these percentages understate the actual fall in these local living standards.

## **The effects of Brexit on the distribution of income allowing for the effects of unskilled immigration**

An important issue flowing from the analysis of unskilled immigration is how the incomes both of ordinary average households and also the poorest households are affected by Brexit. In our work on the effects of free trade, whether under a Canada+ deal or a World Trade deal (where we leave under WTO rules), we have estimated that GDP would be boosted by 4% by free trade and that consumer prices would fall by 8%. Since goods bought by poorer households would fall by more, the gain to poorer households from falling prices is larger than for the average.

Matters do not end there however, as our analysis of unskilled immigration above reveals. Poorer communities pay more for unskilled immigration than the average because the costs in public services fall directly on these communities where unskilled immigrants settle. Furthermore, the wages of unskilled workers are depressed by the large increased supply of immigrant unskilled workers to these communities.

In the notes below, we set out some details of how these factors will affect poorer households. In sum, we estimate that they will be typically 15% better off from Brexit, due to the combination of above average falls in their shopping basket prices, the elimination of the costs of sustaining the unskilled immigrant families, and the reversal of the fall in their unskilled wages.

### ***Notes on calculations by Economists for Free Trade (EFT) for the effects of Brexit on low income households***

#### Calculations of the CPI effect on low income households

There is good ONS data on the spending by the lowest 10% of the household income distribution. Median household disposable income is £26300 p.a. (about £500 per week) and the mean is £27800 (about £530 per week); the mean is higher than the median because the highest deciles have high income which raises the average.

The lowest decile household, compared with the median household, spends an extra 8% of its income on food and another extra 8% on housing costs ('non-traded goods and services'). Where it spends less is on 'traded services' like education/health/insurance/finance.

When we leave the EU under free trade food prices go down 10% (the long run assumption EFT makes for EU protection) and housing costs (with other non-traded goods and services) go down 11.7% according to our Cardiff World Trade Model simulation. The reason for the large fall in the prices of non-traded goods and services, especially housing, is the fall in the price of land which is heavily affected by agricultural protection.

The result of this is that in the long run, whereas average consumer prices drop 7.5%, the CPI of the lowest 10% drops 9.3%- on a weekly spend of £233

For 60% of median (2<sup>nd</sup> lowest decile) the figure is 9%- on £299 a week  
For 70% of median (3<sup>rd</sup> lowest decile) the figure is 8.4%- on £360 a week

#### EU unskilled Immigration costs for the poorest households:

£3.5 billion, the cost we have calculated for the UK taxpayer from unskilled EU immigration (as explained in Ashton et al, 2016, <http://www.economistsforfreetrade.com/the-economics-of-unskilled-immigration/>), spread evenly across 27 m. households is £128 per year or £2-50 per week.

Assuming that in poor areas the immigration percentage of the population is double (see below), this would double to £5 per week.

Total immigration of EU unskilled immigrant adult workers is 1 million approx. at the present time.

The effect on wages: 1 million unskilled EU immigrant workers represent 3% of the labour force. Unskilled workers in UK labour force represent 10.6 million (LFS, 2016). The share of EU unskilled in UK unskilled labour force = 10%.

The resulting wages effect would be -2%, according to the study by Prof. Steve Nickell for the Bank of England (citation in Ashton et al.)

In poor urban areas outside London the total immigration percentage is around double the national average of 13.1% e.g.

Local Authority areas	Share (%)
Luton	17.0
Peterborough	20.6
Boston	17.0
Manchester	25.5
Leicester	33.3
Brent	55.1
Birmingham	22.2
Forest Heath	23.0
Bradford	17.1
Nottingham	19.5
Leeds	11.5

Assuming unskilled immigration is similarly double, the effect on unskilled wages there could be -4%.

We can then calculate the effects of Brexit on living standards of the poorest households as follows:

Table of Brexit gains for lowest decile (equivalised)\* households- £ per week

	% of median	Spend	CPI (%)	Wages (%)	Taxpayer cost	TOTAL	(% of spend)
Lowest decile	47	233	22 (-9.3)	9 (+4)	5	36	(15.4)
2 <sup>nd</sup> lowest	60	299	27 (-9.0)	12 (+4)	5	44	(14.7)
3 <sup>rd</sup> lowest	72	360	30 (-8.4)	14 (+4)	5	49	(13.6)

\*an equivalised household is one of two adults; actual household spending is adjusted to this basis, assuming (standard OECD) extra adult or child over 13 adds 0.33 of total spend, extra child (0-13) 0.2. Source: ONS for spend; for CPI, Wages, Immigration, the source is EFT estimates as explained in the text.

## Conclusions

We have shown how unrestricted unskilled immigration from the EU, far from being merely a huge political issue, is in fact an economic issue of major proportions for most people and particularly for poorer people, on whom its costs largely fall. It is essential that this is not lost sight of in the Brexit negotiations. Any Brexit outcome must put an end to these costs by reasserting control over unskilled EU immigration. Of course, sensible schemes can be devised to allow temporary immigration of unskilled workers for tasks, such as fruit harvesting, for which home workers cannot realistically be found. This has always been done for non-EU workers. Essentially the new regime for EU unskilled workers should mimic the existing one for non-EU workers. As for skilled workers, they are necessary for the economy's progress and as they make a large net contribution to the Exchequer, they do not create a political or economic problem. Thus the existing rather liberal regime for non-EU workers can also be extended to EU workers; it should be looked at with a view to adapting it efficiently to the economy's needs.

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