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IMMIGRATION IMPACTS:

THE EFFECT OF IMMIGRATION ON THE BRITISH
ECONOMY & PUBLIC FINANCES

AN ECONOMIC POLICY RESEARCH GROUP
REPORT

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ABSTRACT

THIS RESEARCH PAPER EXPLORES THE EFFECTS PAST IMMIGRATION TO THE UK HAS HAD ON THE ECONOMY AND PUBLIC FINANCES AND, BASED ON THIS, WHAT THE POTENTIAL BENEFITS ARE OF THE NEW IMMIGRATION SYSTEM GOING FORWARD. THE FOUR EFFECTS OF PAST IMMIGRATION WE CONSIDERED WERE THE EFFECTS ON NATIVES LOW-SKILLED JOBS, UK INDUSTRIES WHICH REQUIRE ADVANCED SKILLING, TAX-GENERATION, AND BENEFIT-USE. ECONOMIC THEORY WOULD SUGGEST THAT LOW-SKILLED IMMIGRATION PROVES DETRIMENTAL TO NATIVE WAGES AND EMPLOYMENT PROSPECTS WITH IMMIGRANTS WHO POSSESS MORE ADVANCED, AND DIFFERENTIATED, SKILLS COMPARED TO THE NATIVE POPULATION, PROVING TO BE THE MOST BENEFICIAL TO THE NATIVE ECONOMY. INDEED, ONE OF MIGRANTS' MOST NOTABLE POSITIVE IMPACT ON THE UK ECONOMY HAS BEEN IN THESE HIGHER-SKILLED INDUSTRIES LIKE START-UPS, TECHNOLOGY, AND HEALTHCARE, AND ENSURING CONTINUED EASE AT WHICH THE WORLD'S BEST AND BRIGHTEST CAN CONTRIBUTE TO THESE INDUSTRIES IN THE UK IS OF CRUCIAL IMPORTANCE. ASSESSING THE FISCAL CONTRIBUTION OF MIGRANTS DEPENDS LARGELY ON THEIR CHARACTERISTICS AND OUR ANALYSIS AGAIN SHOWS THAT THESE YOUNG, CHILDLESS, HIGHLY SKILLED IMMIGRANTS TO BE THE BIGGEST FISCAL CONTRIBUTORS. THAT BEING SAID, RESEARCH SHOWS THAT EVEN WHEN TAKING THE ENTIRE MIGRANT POPULATION INTO ACCOUNT, THE NET FISCAL CONTRIBUTION IN THE PAST HAS BEEN NEUTRAL TO POSITIVE, IN CONTRAST TO PUBLIC PERCEPTION. ULTIMATELY, WE CONCLUDE THIS FACT WHILST ADVISING FOR AN IMMIGRATION POLICY BASED AROUND ATTRACTING HIGHER-SKILLED WORKERS IN THE FUTURE.

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1. INTRODUCTION

THE PURPOSE OF THIS RESEARCH PAPER IS TO EXPLAIN THE EFFECT IMMIGRATION HAS HAD ON THE UK'S ECONOMY AND PUBLIC FINANCES AND USE IT TO EVALUATE WHETHER THE NEW IMMIGRATION SYSTEM CAN BE A BOON OR A HINDERANCE TO BOTH.

THE FIRST SECTION AIMS TO EXPLAIN THE CURRENT STATE OF IMMIGRATION IN THE UK AND WHY THERE IS AN EXPECTATION OF A LOWER LEVEL OF IMMIGRATION GOING FORWARD. THE SECOND SECTION AIMS TO EVALUATE WHETHER THE EFFECTS THAT IMMIGRATION HAS HAD ON THE UK ECONOMY IN THE PAST HAVE BEEN POSITIVE OR NEGATIVE TO NATIVE OUTCOMES AND OVERALL GROWTH. THE THIRD SECTION EVALUATES THE OVERALL IMPACT OF PAST IMMIGRATION ON THE UK'S PUBLIC FINANCES. FINALLY, THE PAPER CONCLUDES WITH AN EVALUATION OF THE NEW IMMIGRATION SYSTEM AND IN WHAT WAYS IT MAY IMPROVE ON THE OLD SYSTEM.

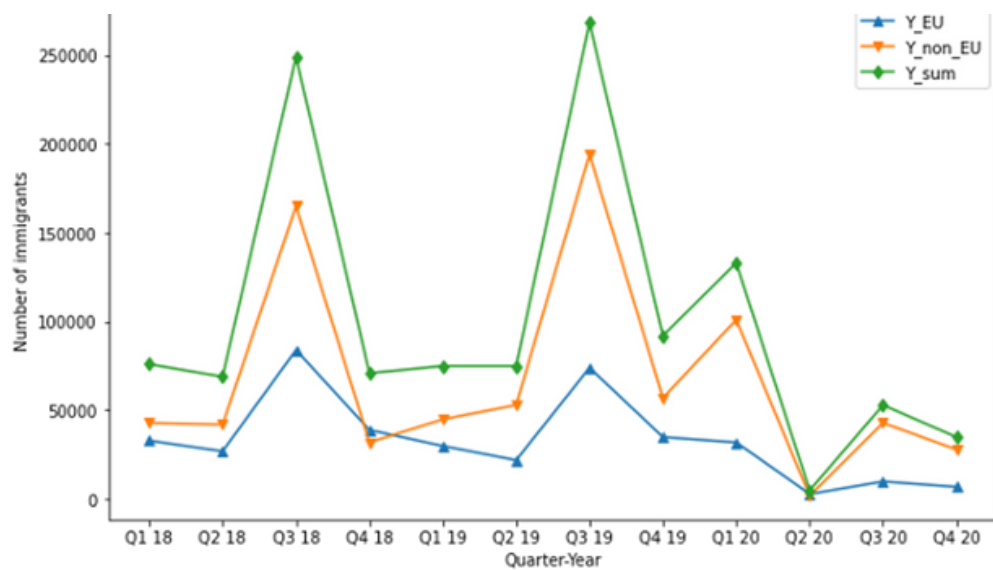


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2. THE CURRENT STATE OF IMMIGRATION IN THE UK

According to data from the Office for National Statistics, as shown in Figure 1, the number of immigrants working in the UK has sharply declined since the beginning of the Covid-19 pandemic as the closure of the economy prompted many immigrants to return to their native countries.

FIGURE 1: IMMIGRATION TREND IN THE UK



WE EXPECT THIS NEW LOWER LEVEL OF IMMIGRANTS IN THE UK TO CONTINUE DUE TO THE CHANGES IN IMMIGRATION LAW POST-BREXIT WHICH RESTRICTS EU MIGRANTS IN THEIR ENTRY TO THE UK.

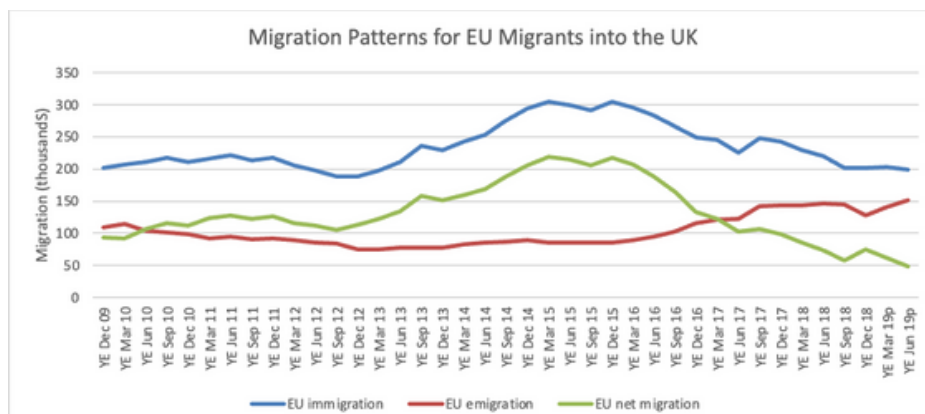
FOR EXAMPLE, EU CITIZENS WHO ARE NOT ELIGIBLE FOR THE EU SETTLEMENT SCHEME BUT ARE PLANNING TO WORK IN THE UK, MUST NOW APPLY THROUGH THE SKILLED WORKER VISA, AN UPDATED VERSION OF THE TIER 2 VISA (UK GOVERNMENT, 2021). ACCORDING TO THE UK GOVERNMENT WEBSITE, THE NEW SKILLED WORKER VISA MUST MEET THE FOLLOWING 4 CONDITIONS: IT MUST BE A UK EMPLOYER THAT HAS BEEN APPROVED BY THE HOME OFFICE, THE INDIVIDUAL MUST HAVE A CERTIFICATE OF SPONSORSHIP, AND YOUR PAY MUST BE GREATER THAN OR EQUAL TO THE MINIMUM WAGE. FURTHERMORE, THE NEW INNOVATOR'S VISA (TIER 1), WILL ONLY BE GRANTED TO MIGRANTS WITH OVER £ 50,000 IN INVESTMENTS, WHO ARE FINANCIALLY STABLE AND INDEPENDENT, AND DO NOT HOLD ANY OTHER OCCUPATION OR SOURCE OF INCOME OUTSIDE THE VENTURE (UK GOVERNMENT, 2021). APPLICANTS MUST ALSO BE SPONSORED BY AN ORGANIZATION THAT HAS BEEN APPROVED BY THE GOVERNMENT (UK GOVERNMENT, 2021).

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Finally, going forward, immigration for non-Irish citizens from both EU and non-EU countries will now work on a points-based system, awarding higher priority for entry to those with jobs lined-up, English language proficiency and advanced educational and technical qualifications (Home Office, 2021).

The impact of the Brexit vote and these expected changes has already been seen in the migration figures. EU net migration into the UK has already fallen, a trend which began in the buildup to the EU referendum in 2015 and 2016 and which continued throughout the Brexit negotiations.

FIGURE 2: EU IMMIGRATION 2009-2019



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3. EFFECTS OF IMMIGRATION ON THE UK ECONOMY

3.1. LABOUR MARKET THEORY

IN LABOUR MARKET THEORY, THE IMMEDIATE SHORT-TERM EFFECTS OF IMMIGRATION ON WAGES AND EMPLOYMENT ARE AFFECTED BY THE SKILL COMPOSITION OF THE INCOMING MIGRANTS (BORJAS, 1995).

IF MIGRANT WORKERS HAVE SIMILAR SKILLS TO EXISTING WORKERS, IMMIGRATION INCREASES COMPETITION FOR JOBS AS THE POOL OF ELIGIBLE WORKERS INCREASES, AND THEREFORE NATIVE WAGES DECLINE. ANY INCREASES IN UNEMPLOYMENT AMONG EXISTING WORKERS DEPENDS ON THEIR ACCEPTANCE OF THESE NEW LOWER WAGES.

HOWEVER, WHEN THE SKILLS OF IMMIGRANTS COMPLEMENT THE NATIVE SKILL COMPOSITION, NATIVES TYPICALLY EXPERIENCE AN INCREASE IN WAGES. THE ADJUSTMENT OF THE ECONOMY DEPENDS ON ITS FLEXIBILITY AND POSITION IN THE BUSINESS CYCLE. WHEN THE LABOUR MARKET IS FLEXIBLE AND THERE ARE SUSTAINED LEVELS OF HIGH DEMAND, RECRUITMENT OCCURS QUICKLY, AND THEREFORE THE ADDITIONAL LABOUR IN THE ECONOMY IS USED TO INCREASE PRODUCTION, INCREASING AGGREGATE DEMAND AND EVENTUALLY DEMAND FOR MORE LABOUR.

IN CONTRAST, DURING RECESSIONS AND UNSTABLE ECONOMIC CONDITIONS, EMPLOYERS ARE LESS LIKELY TO INCREASE EMPLOYMENT IMMEDIATELY, AND MORE LIKELY TO SPREAD INCREASES OVER TIME AS THE WAGE LEVEL RESPONDS/FALLS. MOREOVER, IN THESE SLACK LABOUR MARKET CONDITIONS, EMPLOYERS TEND TO BE MORE EXACTING IN THE SKILLS THEY REQUIRE, AND CHARACTERISTICS SUCH AS ALTERNATIVE QUALIFICATIONS AND LANGUAGE DIFFICULTIES PRESENT IN IMMIGRANTS ARE OFTEN MORE LIKELY TO PREVENT AN IMMIGRANT FROM BEING HIRED. STUDIES HAVE DEMONSTRATED EVIDENCE OF THE INTENTIONAL OMISSION OF IMMIGRANTS WHEN HIRING DURING ECONOMIC DOWNTURNS (BEHTOUI, 2004).

IN CONCLUSION, WHEN IMMIGRATION LEADS TO GREATER COMPETITION FOR NATIVE WORKERS, IT CAN HAVE A NEGATIVE IMPACT ON NATIVE JOBS AND WAGES. HOWEVER, WHEN IMMIGRANTS PROVIDE UNIQUE, AND ADVANCED, SKILLS, COMPARED TO THE NATIVE POPULATION, COMBINED WITH A GROWING ECONOMY, IMMIGRATION CAN BENEFIT BOTH IMMIGRANTS AND THE NATIVE POPULATION. WE WILL EXPLORE THE REAL-WORLD IMPACT OF THESE HIGHER-SKILLED IMMIGRANTS WITHIN THE START-UP, TECHNOLOGY, AND HEALTHCARE INDUSTRIES.

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3.2. EFFECTS ON ENTREPRENEURSHIP

IMMIGRANTS WHO HAVE AN ADVANCED LEVEL OF EDUCATION HAVE BEEN SHOWN TO INCREASE THE LEVEL OF HUMAN CAPITAL IN THE ECONOMY (KERR AND LINCOLN 2010, HUNT AND GAUTHIER-LOISELLE 2010), THROUGH THEIR OWN IMPACT AND ALSO INDIRECTLY THROUGH INCENTIVIZING NATIVES TO DO SO.

THE POSITIVE IMPACT OF IMMIGRANT ENTREPRENEURSHIP ON THE NATIVE COMMUNITY HAS BEEN EVIDENT FOR MANY YEARS. IN EARLY POST WAR BRITAIN, SOUTH ASIAN BUSINESSES IN INNER CITIES 'OFFERED CHANCES OF EMPLOYMENT TO OTHERS FROM THE COMMUNITY' AND PLAYED A KEY ROLE IN STIMULATING GROWTH (HALL 1978).

EVIDENCE FROM THE GLOBAL ENTREPRENEURSHIP MONITOR IN 2017 HAS HIGHLIGHTED THE CONTINUED IMPORTANCE OF THE IMMIGRANT CONTRIBUTION TO UK ENTREPRENEURSHIP. THE REPORT ILLUSTRATES HOW THE NUMBER OF UK-BASED INDIVIDUALS STARTING THEIR OWN FIRMS HAS CONSIDERABLY INCREASED SINCE THE FINANCIAL CRISIS OF 2008, WITH THE GREATEST CONTRIBUTION MADE BY PEOPLE FROM ETHNIC MINORITIES AND MIGRANTS. IN 2017, IT WAS FOUND THAT 12.9% OF IMMIGRANTS WERE EARLY-STAGE ENTREPRENEURS, COMPARED TO 8.2% OF THE UK BORN POPULATION, AND THAT THIS DIFFERENCE HAD WIDENED CONSIDERABLY SINCE 2008.

3.3. EFFECTS IN THE TECHNOLOGY SECTOR

THE TECHNOLOGY SECTOR HAS SHOWN A HIGH RELIANCE ON FOREIGN IMMIGRANTS FROM BOTH EU AND NON-EU COUNTRIES. ACCORDING TO THE MIGRATION OBSERVATORY IN 2020, IN THE WHOLE OF THE UK, EU MIGRANTS TAKE UP 10% OF THE WORKFORCE RELATED TO SCIENCE, RESEARCH, ENGINEERING, AND TECH PROFESSIONS, WHILE NON-EU MIGRANTS HAVE A SHARE OF 15%. THIS RELIANCE ON FOREIGN LABOR IS MAGNIFIED IN LONDON, WHERE EU MIGRANTS TAKE UP 21% OF THE WORKFORCE. IN GENERAL, 25% OF WORKERS IN THE INFORMATION, COMMUNICATION AND IT INDUSTRY ARE MIGRANTS.

ONE SUB-INDUSTRY WHERE MIGRANTS HAVE SHOWN PROMINENCE IN HAS BEEN THE FINANCIAL TECHNOLOGY (FINTECH) INDUSTRY. THE CURRENT UK ADMINISTRATION HAS BEEN ACTIVELY SUPPORTING THE FINTECH INDUSTRY, BY TAKING FORWARD A 'SCALE BOX' THROUGH THE FINANCIAL CONDUCT AUTHORITY (FCA), WHICH ASSISTS TECH START-UPS IN TESTING THEIR PRODUCTS, ALLOWING THEM TO SCALE UP THEIR BUSINESS. THESE EFFORTS, AND GOVERNMENT SUPPORT FOR THE INDUSTRY, HAS ALLOWED LONDON TO BECOME THE SECOND HIGHEST FINTECH ECOSYSTEM GLOBALLY, AND GENERATE THE HIGHEST CONCENTRATION OF FINANCIAL AND PROFESSIONAL SERVICES FIRMS IN THE WORLD (DELOITTE, 2020). THE DEVELOPMENT OF THE INDUSTRY HAS ATTRACTED AN INFLUX OF CASH WORTH \$4.1 BILLION (DELOITTE, 2020).

HOWEVER, CHANGES IN THE IMMIGRATION SYSTEM IN THE UK, PARTICULARLY FOR ITS INNOVATOR VISA, HAS MADE ENTREPRENEURIAL VENTURES MORE DIFFICULT. THIS HEIGHTENED SET OF RULES LED TO A DECREASE IN THE NUMBER OF INNOVATOR VISA ISSUES AS ONLY 280 WERE GIVEN DURING THE FIRST 18 MONTHS OF ITS OPERATION FROM ITS INTRODUCTION IN 2019 (WRIGHT, 2021). MOREOVER, THE NEW POINT-BASED WORK VISA, DUE TO ITS STRICT POLICY WITH REGARDS TO MINIMUM WAGE THAT IS REQUIRED TO APPLY, AND ITS EDUCATION/LINGUISTIC REGULATIONS, HAVE SLOWED THE INFLUX OF MIGRANT WORKERS PRIMARILY FROM THE EU.

TO OFFSET THIS, THE UK GOVERNMENT HAS CREATED A NEW FINTECH WORK VISA. UNDER THIS, APPLICANTS NO LONGER REQUIRE SPONSORSHIPS, AND MAY APPLY WITH JUST A JOB OFFER (TEKHMEED, 2021). THIS MAY COUNTER THE NEGATIVE EFFECT BREXIT HAD ON THE INFLUX OF HIGHLY SKILLED MIGRANT WORKERS FOR THE FINTECH INDUSTRY AND MAY EVEN ALLOW THE FIELD TO RETAIN ITS GROWTH. HOWEVER, IT DOES LITTLE TO ASSIST FOREIGN-BORN START-UPS FROM MOVING TO THE UK AS EASILY AS THEY HAVE BEEN ABLE TO DO IN THE PAST.

3.4. EFFECTS ON THE NATIONAL HEALTH SERVICE

THE NATIONAL HEALTH SERVICE (NHS) IS ANOTHER AREA IN WHICH IMMIGRANTS, SKILLED IN HEALTHCARE, HAVE MADE A POSITIVE CONTRIBUTION TO THE NATION. IN JUNE 2019, 13.3% OF NHS STAFF IN HOSPITALS AND COMMUNITY SERVICES REPORTED A NON-BRITISH NATIONALITY. WITHIN THIS ANALYSIS, IT WAS FOUND THAT FOR DOCTORS, THE PROPORTION WAS 28.4%. MOREOVER, IT WAS FOUND IN MARCH 2019 THAT OVER 20% OF GPs QUALIFIED OUTSIDE THE UK, AND IN NORTH, CENTRAL AND EAST LONDON, THE PROPORTION WAS OVER 28%.

THIS IS PARTICULARLY IMPORTANT, AS NEITHER THE UK ECONOMY, NOR STATE, HAS HAD TO INCUR THE COSTS OF TRAINING THESE IMMIGRANT WORKERS IN HEALTHCARE. THIS HAS LED TO A SIGNIFICANT OVERALL ENDOWMENT IN PRODUCTIVE HUMAN CAPITAL WITHOUT SIGNIFICANT SPENDING ON EDUCATION. THIS AMOUNTS TO A 'GAIN IN NATIONAL INCOME ACCRUING TO NATIVES AS A RESULT OF IMMIGRATION' (BORJAS, 2006, P 12).

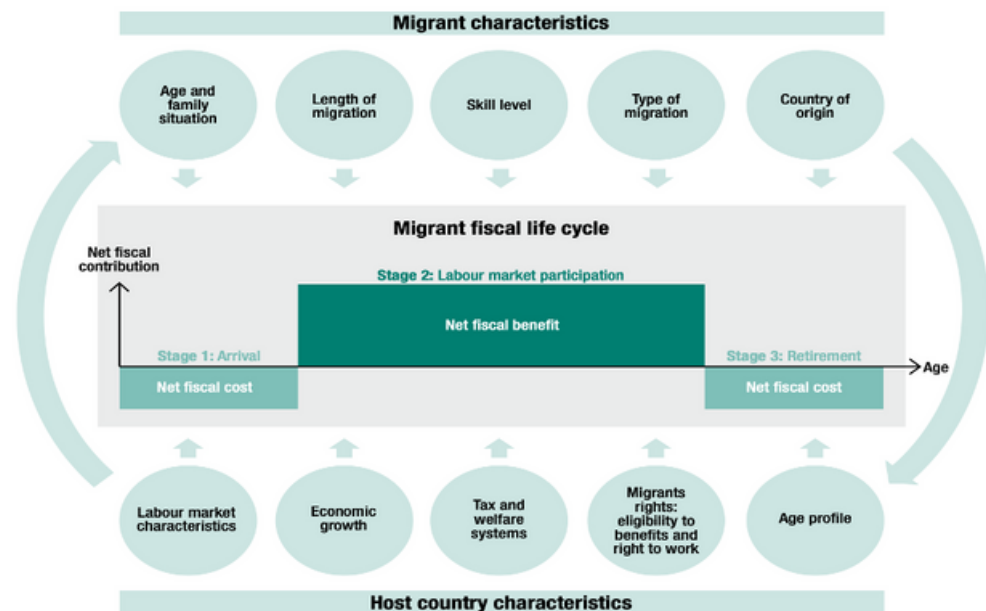
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4. EFFECTS OF IMMIGRATION ON THE UK'S PUBLIC FINANCES

4.1. IMPORTANCE OF MIGRANT CHARACTERISTICS ON FISCAL IMPACT

IT HAS BEEN STRONGLY ESTABLISHED THAT THE NET FISCAL IMPACT OF IMMIGRATION DEPENDS NOT JUST ON THE PRIMARY CHARACTERISTICS OF THE MIGRANT POPULATION BUT THE TIMESPAN THEIR IMPACT IS VIEWED IN. AS EXPLAINED IN FIGURE 3., THE NET FISCAL IMPACT OF A MIGRANT DEPENDS ON THEIR AGE AND FAMILY SITUATION, LENGTH OF MIGRATION, SKILL-LEVEL, TYPE OF MIGRATION AND COUNTRY OF ORIGIN. MOREOVER, WHILST THEY MAY OFTEN HAVE AN INITIAL NET FISCAL COST, THEIR TOTAL IMPACT NEEDS TO BE STUDIED OVER THE ENTIRETY OF THEIR LIFESPAN IN THE COUNTRY AS ONCE THEY PARTICIPATE IN THE LABOUR MARKET FOR A LONG ENOUGH TIME, THEY ARE LIKELY TO MORE THAN MAKE UP FOR THEIR INITIAL BURDEN THROUGH TAX REVENUE. HOWEVER, AGAIN, THIS OVERALL CONTRIBUTION WILL DEPEND ON THE CHARACTERISTICS OF THE MIGRANT.

FIGURE 3: THE MIGRANT LIFE CYCLE



FOR EXAMPLE, IMMIGRANTS' WELFARE BENEFITS AND TAX CONTRIBUTIONS DEPEND LARGELY ON THE NATURE OF THEIR INCOMES, SPENDING HABITS AND THE SKILL-LEVEL OF THE WORK THEY DO - HIGH-SKILLED OR LOW-SKILLED. HISTORICALLY, IMMIGRANTS WERE TYPICALLY DOWNGRADED BY BEING MADE TO WORK LOW-SKILLED JOBS WITH LOWER WAGES RATHER THAN HAVING NATIVES OF THE SAME QUALIFICATIONS WORK THOSE JOBS. HOWEVER, OVER TIME, IMMIGRANTS HAVE MOVED TO JOBS WITH HIGHER PAYS, WHICH ALSO MEANS THEIR TAX CONTRIBUTIONS HAVE INCREASED ACCORDINGLY.

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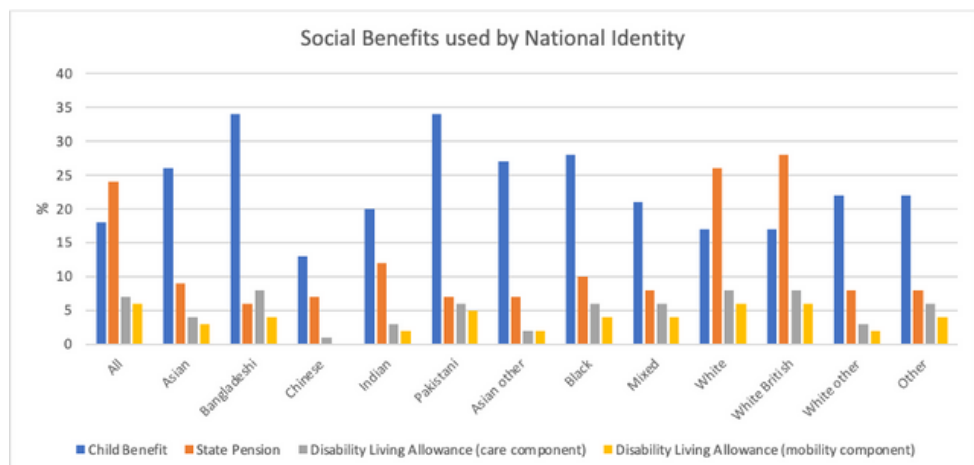
ANOTHER INSTANCE WHERE MIGRANTS' CHARACTERISTICS AFFECT THEIR NET FISCAL CONTRIBUTION TO THE STATE IS IN THEIR EDUCATIONAL QUALIFICATIONS COMPARED TO NATIVES. FOR INSTANCE, IN 2011, 24% BRITISH NATIVES HELD A DEGREE WHEREAS EEA AND NON-EEA IMMIGRANTS WERE AT 35% AND 41% RESPECTIVELY. AS MOST IMMIGRANTS ARRIVE IN THE UK HAVING COMPLETED THEIR EDUCATION ABROAD, THEY ARRIVE AT A POINT IN THEIR LIVES WHERE THE VALUE OF THEIR FUTURE NET FISCAL PAYMENTS IS POSITIVE. IF THE UK HAD TO PROVIDE EACH IMMIGRANT, THE LEVEL OF EDUCATION THEY HAVE ACQUIRED IN THEIR HOME COUNTRY, THE FISCAL COSTS OF IMMIGRATION WOULD BE SUBSTANTIALLY HIGHER. THE STUDY ESTIMATES THAT RECENT IMMIGRANTS ENDOWED THE UK WITH PRODUCTIVE HUMAN CAPITAL BETWEEN 2000 AND 2011 THAT WOULD HAVE COST THE NATION APPROXIMATELY £7BN IN SPENDING ON EDUCATION (FRATTINI AND DUSTMANN, 2018).

FURTHERMORE, IMMIGRANTS ARE TYPICALLY YOUNG AS THEY HAVE MOVED TO THE UK TO HELP FINANCE THEIR ELDERLY FAMILIES IN THEIR NATIVE COUNTRIES, AND THESE ATTRIBUTES HELP WITH TAX REVENUES. THEY ARE THUS ABLE TO HELP PAY FOR AGE-RELATED INCOME, HEALTHCARE COSTS AND PENSION BENEFITS OF THE AGING NATIVE RESIDENTS WHILST NOT TAKING MONEY OUT OF THIS SYSTEM FOR THEMSELVES. THIS DISPARITY IN KIND OF BENEFITS TAKEN CAN BE SEEN IN FIGURE 4., AS THE WHITE BRITISH POPULATION IS FAR MORE DEPENDENT ON STATE PENSIONS THAN ANY OTHER POPULATION GROUP.

HOWEVER, IMMIGRANTS FROM LOWER INCOME COUNTRIES ARE MORE LIKELY TO RECEIVE CHILD BENEFITS. THIS CAN BE EXPLAINED BY THE FACT THAT IMMIGRANTS, ON AVERAGE, ARE YOUNGER THAN UK-BORN CITIZENS AND THUS MORE LIKELY TO HAVE KIDS DEPENDENT ON THEM.

MOREOVER, ONCE IMMIGRANTS BECOME CITIZENS AND GROW OLD IN THE UK, THEY WILL EVENTUALLY BECOME A FISCAL BURDEN THEMSELVES, AS EVIDENT IN THE MIGRANT LIFE CYCLE CHART, AS THEY WILL REQUIRE A STATE PENSION AND GREATER NHS-PROVIDED CARE. THUS, OVERALL FISCAL IMPACT OF AN IMMIGRANT WOULD TAKE A LIFETIME TO FULLY QUANTIFY AND MAY BECOME SKEWED TOWARDS THE NET FISCAL DEFICIT IF THE COSTS TO THE STATE OF IMMIGRANT CHILD-REARING IS INCLUDED IN THE PARENTS' OVERALL IMPACT ON PUBLIC FINANCES, AS OPPOSED TO THE CHILD'S.

FIGURE 4: SOCIAL BENEFITS USED BY NATIONAL IDENTITY, ADAPTED FROM THE UK GOVERNMENT: VISAS & IMMIGRATION (2020)



4.2. OVERALL FISCAL IMPACT OF IMMIGRATION

THERE HAS BEEN A SUBSTANTIAL AMOUNT OF RESEARCH DONE INTO WHETHER THE OVERALL FISCAL IMPACT OF IMMIGRANTS TO THE UK IS POSITIVE OR NEGATIVE WITH AN OVERALL IMPLICATION THAT THE IMPACT IS NEUTRAL TO POSITIVE.

FIRSTLY, A UCL STUDY SUGGESTS THAT IMMIGRATION TO THE UK SINCE THE BEGINNING OF THE 21ST CENTURY HAVE CREATED POSITIVE NET FISCAL CONTRIBUTIONS TO THE BRITISH STATE. FOR INSTANCE, IN THE CONTEMPORARY WORLD, IMMIGRANTS ARE 43% LESS LIKELY TO RECEIVE TAX CREDITS AND BENEFITS THAN NATIVES. MOREOVER, FROM 2001-2011, IMMIGRANTS REDUCED THE FINANCIAL BURDEN BY £8.5BN AS THEIR CONTRIBUTIONS WERE TYPICALLY USED TO REDUCE FINANCIAL BURDENS OF NATIVES.

FURTHERMORE, DATA FROM THE UK GOVERNMENT SUGGESTS THAT EEA NATIONALS PAY MORE NATIONAL INSURANCE AND INCOME TAX THAN THEY RECEIVE IN BENEFITS. REPORTS FROM THE OFFICE FOR BUDGET RESPONSIBILITY GO SO FAR AS TO PREDICT THAT HIGHER NET MIGRATION MAY REDUCE DEBT PRESSURE ON THE GOVERNMENT OVER TIME, BECAUSE IT ASSUMES THAT INCOMING MIGRANTS WILL TYPICALLY BE OF WORKING AGE AND ARE LIKELY TO EARN THE SAME ON AVERAGE COMPARED TO THE REST OF THE POPULATION (VARGAS-SILVA, 2019).

INDEED, DESPITE THE PUBLIC PERCEPTION OF BENEFIT-SCROUNGERS, THERE IS A MULTITUDE OF REGULATION IN PLACE WHICH HINDERS STATE BENEFITS FOR MIGRANTS, MAKING IT MORE DIFFICULT FOR THEM TO SEEK ASSISTANCE WHEN SETTLING IN THE UK. WITHOUT PROOF OF A STABLE INCOME, EU MIGRANTS CANNOT REMAIN FOR MORE THAN 3 MONTHS. THERE IS ALSO LIMITED ACCESS TO SOCIAL BENEFITS UNTIL FULL EMPLOYMENT FOR 1 YEAR. FURTHERMORE, MANY IMMIGRANT COMMUNITIES DEMONSTRATE LOWER RATES OF NEED THAN THOSE BORN IN THE UNITED KINGDOM DUE TO HIGHER EMPLOYMENT RATES. ON AVERAGE, THIS LEADS TO THE QUANTITY OF BENEFITS CLAIMED TO BE LOWER FOR MIGRANTS THAN UK-BORN INDIVIDUALS.

ONE PAPER, 'THE EFFECT OF IMMIGRATION ON PUBLIC FINANCES' ASSESSES THE IMPACT ON IMMIGRATION ON PUBLIC FINANCES FOR THE UK THROUGH STATIC AND DYNAMIC PERSPECTIVES. THE PAPER EXPLAINS HOW IMMIGRATION MAY POTENTIALLY BENEFIT COUNTRIES BY GENERATING AN 'IMMIGRATION SURPLUS' ACCRUING TO NATIVE FACTORS OF PRODUCTION DESPITE THE CHANGES TO PRODUCTION PATTERNS. GOTT AND JOHNSTON (2002) AND DUSTMANN, FRATTINI AND HALLS (2010) EXPLORE THIS CONCEPT FURTHER. THEIR STUDIES INDICATE THAT THE UNDERSTANDING OF THE IMPACTS OF IMMIGRATION ON PUBLIC FINANCES REQUIRES THE UNDERSTANDING THAT IMMIGRATION HAS A STRONG POTENTIAL TO AFFECT ECONOMIC EQUILIBRIUMS. ECONOMIC ARGUMENTS SUGGEST THAT CHANGES IN IMMIGRATION FACTORS CAN GENERATE A TOTAL SURPLUS, BUT THIS MAY INVOLVE PRETAX LOSSES FOR SOME AND GAINS FOR OTHERS. CAPTURING AND REDISTRIBUTING THAT IMMIGRATION SURPLUS TO ENSURE A FAIRER DISTRIBUTION OF THE GAINS WILL DEPEND ON THE TAX SYSTEM. (PRESTON, 2014)

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IN ADDITION, THERE EXISTS A CLEAR GEOGRAPHICAL DIFFERENCE REGARDING WHETHER THE FISCAL IMPACT OF IMMIGRATION IS FOUND TO BE POSITIVE OR NEGATIVE. FOR INSTANCE IN EUROPE, SWEDISH, DUTCH, AND DANISH STUDIES HAVE CONCLUDED THAT THE NET FISCAL IMPACT OF IMMIGRATION TENDS TO BE TYPICALLY NEGATIVE WHEN CONSIDERING NON-EEA MIGRANTS, WHEREAS IT TENDS TO BE POSITIVE FOR IMMIGRANTS FROM EEA OR WESTERN COUNTRIES. ON THE CONTRARY, THE NET FISCAL IMPACT OF IMMIGRATION HAS BEEN ULTIMATELY POSITIVE YET RELATIVELY SMALL FOR OTHER COUNTRIES, MOSTLY AMONG OECD COUNTRIES LIKE NORWAY. EVIDENCE FOR THE UK REMAINS MIXED, WITH STUDIES SUGGESTING THAT EU IMMIGRANTS ARE POSITIVE LONG-TERM NET FISCAL CONTRIBUTORS TO THE BRITISH STATE (HENNESSEY AND HAGEN-ZANKER, 2022).

HOWEVER, A REVIEW BY ODI ESTABLISHES THAT IMMIGRANTS ARE NEITHER NET FISCAL CONTRIBUTORS NOR NET BURDENS TO THE UK (HENNESSEY AND HAGEN-ZANKER, 2020). INDEED, DUE TO HOW SMALL THE POPULATION IS COMPARED TO THE SIZE OF THE COUNTRY, THEY ARE NOT ABLE TO IMPOSE MUCH OF A NET TAX BURDEN NOR BESTOW A SUBSTANTIAL BENEFIT. INDEED, STUDIES SUGGEST THAT THE NET FISCAL IMPACT OF MIGRATION IN THE UK IS RELATIVELY SMALL, CONTRIBUTING TO ABOUT 1% OF THE TOTAL GDP FOR THE WHOLE ECONOMY. A STUDY CONDUCTED BY OXFORD ECONOMICS IN 2018, COMMISSIONED BY THE MIGRATION ADVISORY COMMITTEE, ESTIMATED THAT THE NET FISCAL CONTRIBUTION OF EEA MIGRANTS IN FY 2016/17 WAS APPROXIMATELY £5BN, WHEREAS THE NET COST OF NON-EEA MIGRANTS WAS £9BN, BOTH SMALL COMPARED TO TOTAL TREASURY REVENUE/EXPENDITURE.

TO CONCLUDE, IN GENERAL, THE EVIDENCE POINTS TO A SLIGHT NET POSITIVE FISCAL CONTRIBUTION FROM IMMIGRANTS IN THE PAST. IN THE FUTURE, IF THE UK GOVERNMENT IS AIMING TO BETTER MAXIMIZE FISCAL CONTRIBUTION FROM MIGRATION, THEY WOULD BE WISE TO PURSUE AN IMMIGRATION POLICY AIMED AT ATTRACTING MIGRANTS WITH THE CHARACTERISTICS OF BEING YOUNG, HIGHLY SKILLED, AND CHILDLESS. AS OUTLINED IN THE PREVIOUS SECTION, THESE ARE THE TYPES OF MIGRANTS WHICH GENERATE THE MOST TAX REVENUE AND USE THE FEWEST BENEFITS.

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5. A CASE STUDY: POLISH IMMIGRATION TO THE UK & THE EFFECT ON THE ECONOMY AND PUBLIC FINANCES

IMMIGRANTS FROM POLAND MAKE UP THE LARGEST EUROPEAN IMMIGRANT POPULATION IN THE UK. THE POPULATION HAS GROWN 10 TIMES FROM 2002 TO 2017, AND NOW ACCOUNT FOR 2.3% OF ALL BIRTHS. THIS HAS BEEN LARGELY DUE TO VOLATILITY IN THE POLISH ECONOMY AND POLITICAL SYSTEM, THE HIGHER WAGES AND BETTER JOB PROSPECTS ASSOCIATED WITH THE BRITISH ECONOMY AS WELL AS THE OPENING OF THE UK ECONOMY TO POLISH MIGRATION WHEN POLAND BECAME A MEMBER OF THE EUROPEAN UNION.

POLISH IMMIGRANTS HAVE BEEN A POSITIVE INFLUENCE ON PUBLIC FINANCES AND THE HEALTH OF THE UK ECONOMY. THE POLISH UNEMPLOYMENT RATE IS LOWER THAN THAT OF NATIVES AND THUS THEY REQUIRE LESS IN UNEMPLOYMENT BENEFITS. COLLECTIVELY POLISH IMMIGRANTS DESCRIBE A SPECIFIC CASE OF UK IMMIGRANTS IN TERMS OF SOCIAL BENEFITS. POLISH IMMIGRANTS ALSO APPEAR WELL INTEGRATED AND ABLE TO CLIMB SOCIALLY TO HIGHER-SKILLED POSITIONS. FURTHERMORE, CHILDREN OF POLISH IMMIGRANTS ARE LIKELY TO GO ON TO HIGHER EDUCATION, IMPROVING THE SKILL SET OF THE OVERALL LABOUR FORCE IN THE UK.

6. CONCLUSION

THE CURRENT POLICIES BEING CARRIED OUT BY THE UK GOVERNMENT ARE MUCH MORE RESTRICTIVE ON THE FLOW OF IMMIGRATION INTO THE UK THAN HAS BEEN SEEN IN THE PAST, WITH THE POINTS-BASED SYSTEM FOCUSED MAINLY ON ALLOWING HIGHER-SKILLED WORKERS ENTRY.

ECONOMIC THEORY WOULD SUGGEST THAT THIS IS THE DESIRABLE FORM OF IMMIGRATION, SET TO HELP THE ECONOMY GROW RATHER THAN FORCE THE NATIVE POPULATION INTO LOWER EMPLOYMENT AND WAGES. INDEED, WITHIN THE START-UP, TECHNOLOGY AND HEALTHCARE INDUSTRIES, THESE HIGHER-SKILLED MIGRANT POPULATIONS WILL CONTINUE TO MAKE A POSITIVE IMPACT ON THE GROWTH OF THE ECONOMY AND THE STANDARD OF LIVING OF THE NATIVE POPULATION AS THEY HAVE DONE IN THE PAST.

ANALYSIS OF MIGRANT CHARACTERISTICS AND THEIR EFFECT ON FISCAL CONTRIBUTIONS WOULD FURTHER SUPPORT THIS NOTION. GAINING THESE SKILLS IN THE ECONOMY WITHOUT THE UTILIZATION OF THE RESOURCES REQUIRED TO TRAIN THEM IS A PARTICULARLY IMPORTANT BOON FOR THE UK TREASURY AND ECONOMY.

HOWEVER, WHILST THIS NEW FOCUS ON HIGHER-SKILLED IMMIGRANTS WOULD BE POSITIVE FOR STATE FINANCES, IT WOULD BE WRONG TO CONCLUDE THAT THE PREVIOUS POLICIES HAVE BEEN NEGATIVE IN THIS REGARD. THE POPULAR NOTION OF THE BENEFIT-SCROUNGING IMMIGRANT SEEMS TO BE AT ODDS WITH THE RESULTS OF RESEARCH PAPERS. A COMBINATION OF STRICT RESTRICTIONS ON BENEFIT-USE AND THE LIKELIHOOD THAT IMMIGRANTS ARE YOUNG, CHILDLESS, AND MORE LIKELY TO BE EMPLOYED MEANS THAT THEY HAVE NOT BEEN THE FISCAL BURDEN PREVIOUSLY SUGGESTED. THEIR BENEFIT-USE, LOWER IN MANY INSTANCES THAN FOR THE NATIVE POPULATION, BECOMES MORE THAN COMPENSATED FOR BY THEIR TAX GENERATION WHEN VIEWED OVER A LONGER TIMEFRAME.

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