OXFORD ECONOMICS

THE FISCAL CONTRIBUTION OF EU MIGRANTS

UPDATE AND SCENARIO ANALYSIS

A REPORT FOR THE MIGRATION ADVISORY COMMITTEE

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EXECUTIVE SUMMARY

On leaving the European Union (EU), the UK government will gain greater control over its immigration policy with respect to EU nationals. In preparation for this new era, the Migration Advisory Committee (MAC) has been tasked with reporting on the salary thresholds for skilled workers and a points-based immigration system. The MAC commissioned Oxford Economics to help improve the existing evidence base on this issue—specifically, to analyse the fiscal implications of immigration.

A previous report, published in 2018, presented estimates of the current ('static') net contribution of natives and migrants from different origins, and findings from a dynamic model which examined these cohorts' net fiscal impact over their respective lifecycles. This report updates the static analysis using previously unavailable data covering fiscal year 2017-18 (FY 17/18) and presents findings from scenario analysis which examines how various restrictions on entry, if they had been implemented in 2004, might have affected this static contribution.

Our updated results reflect changes due to new data and the application of a new definition of a migrant. We have used the latest versions available of the Labour Force Survey (LFS) and Family Resources Survey (FRS), both of which cover the period FY 17/18. Secondly, we have changed the definition of a migrant to be based on the individual's nationality rather than their country of birth. This implies that migrants born outside the UK who have subsequently obtained citizenship were no longer classified as migrants. This is to align with the MAC's own economic modelling where the nationality definition is used because it is looking at eligibility for visa routes

The most notable impact of these changes was to the estimated average net fiscal contribution of non-EEA migrants. In FY 17/18, we estimate the average net fiscal contribution of this cohort was £310 above the national average. In contrast, in our previous analysis, using the country of birth definition, we estimated a figure that was £840 *below* the national average. On the other hand, the average fiscal contributions of both natives and EEA migrants fell relative to the UK average, from -£70 to -£140 and £2,210 to £1,940 respectively. Whilst the rise in the average contribution of non-EEA migrants can be attributed primarily to the definitional change, the fall in the EEA migrant contribution was largely driven by sampling differences between the LFS in 2016/2017 and 2017/2018.

This type of static analysis contributes to our understanding of the current contribution of migrants but has little to say about the potential impact of future restrictions on inward migration. To improve the evidence base in this area, we have run a number of scenarios for the MAC. These are based on the MAC's own analysis of the impacts which would have occurred had alternative policies been in place for EEA nationals from 2004 The overall restrictiveness of future policy on salary thresholds is determined through the use of three key policy instruments: an occupational skill requirement, a general income threshold and occupation specific thresholds, which can be used with or without an occupational cap.

The impact on the net fiscal position is affected both by the absolute number of ineligible migrants and by the distribution of ineligible migrants between beneficiaries and contributors to the UK Exchequer. Whilst higher salary thresholds criteria increase the number of ineligible migrants, they also tend to increase the proportion within this group who currently make a net positive contribution to the Exchequer. It is the interaction of these factors which determines the aggregate net contribution of the ineligible cohort.

Overall, our results suggest that a combination of a mid-skill eligibility requirement and income threshold can lead to fiscal gains for the Exchequer. Relative to overall government spending, however, the differences in the fiscal impact between scenarios are marginal. This is primarily due to the application of a mid-skill occupational requirement in all scenarios. Varying the salary thresholds, in addition to this, provides some further gain to the Exchequer. However, higher thresholds, beyond the 25th percentile of the earnings distribution, tend to lower the overall gains for the public finances.

1. INTRODUCTION

As the UK moves towards exiting the EU, the UK government will have greater freedom to shape migration policy. The UK's current stock of migrants both consume public resources and contribute tax revenue to the Exchequer. Therefore, the fiscal implications of potential policy reforms are likely to be a natural consideration for the government.

In this context, this document aims to add to the evidence base through two separate strands of analysis. First, we provide an update of our previous estimates of the static fiscal contribution of natives and various migrant cohorts to the UK public finances. Second, we use scenario analysis to assess how the implementation of various eligibility restrictions (if in place since 2004) would have affected the composition and size of the current UK EU migrant stock and the static implications for the UK's fiscal position. Importantly, this current cohort of EU migrants will be able to remain in the UK under the EU settlement scheme.

Our fiscal update differs in two key ways from the previous report. First, we have used more timely versions of both the Labour Force Survey (LFS) and the Family Resources Survey (FRS). These both apply to fiscal year 2017/18 (FY 17/18). Second, we have defined migrants based on their nationality (previously country of birth). This means some migrants who were born outside the UK but have subsequently obtained citizenship will be classified as native citizens.

On the other hand, the scenario analysis provides insight into the extent to which alternative salary thresholds would apply to the existing cohort of EEA migrants and the current net fiscal contribution of this group. We have examined 23 scenarios which aim to tease out the differential impacts of three key policy levers: a minimum skill requirement, general income thresholds; and occupation specific rates, which can be applied with or without occupational caps.

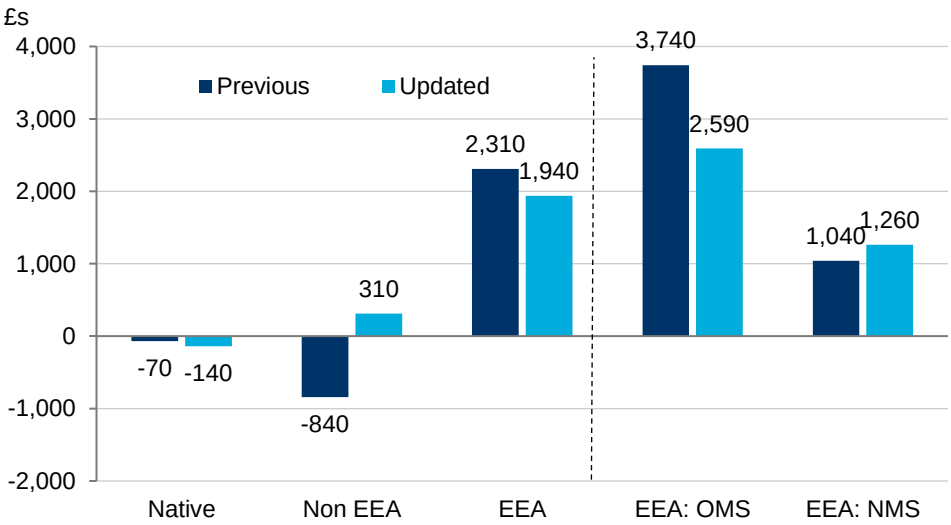
In what follows, we begin by providing an update of our results, including the impact of the definition change. We then turn to the scenario analysis. Discussion of all methodologies and a full list of scenarios is available in the Appendix.

2. FISCAL UPDATE

2.1 KEY FINDINGS

Fig. 1 provides a summary of the changes to our static analysis of the fiscal contribution of various population cohorts. The largest changes are to the non-EEA and EEA Old Member States (OMS) migrant cohorts, with a smaller change to the EEA New Member States (NMS) cohort.[1] The former is estimated to have made a net contribution that was £310 *above* the national average in FY 2017/18 compared to £840 *below* average in FY 2016/17. Conversely, the latter is estimated to have made a net contribution that was £2,590 above the national average in FY 2017/18, lower than the £3,740 above average estimate we published for FY 2016/17. In the remainder of this section we focus on the drivers of changes for these two cohorts.

Fig. 1: Average annual net fiscal contribution of each migrant and native, relative to the average UK adult: updated estimates vs previous results



Source: Oxford Economics

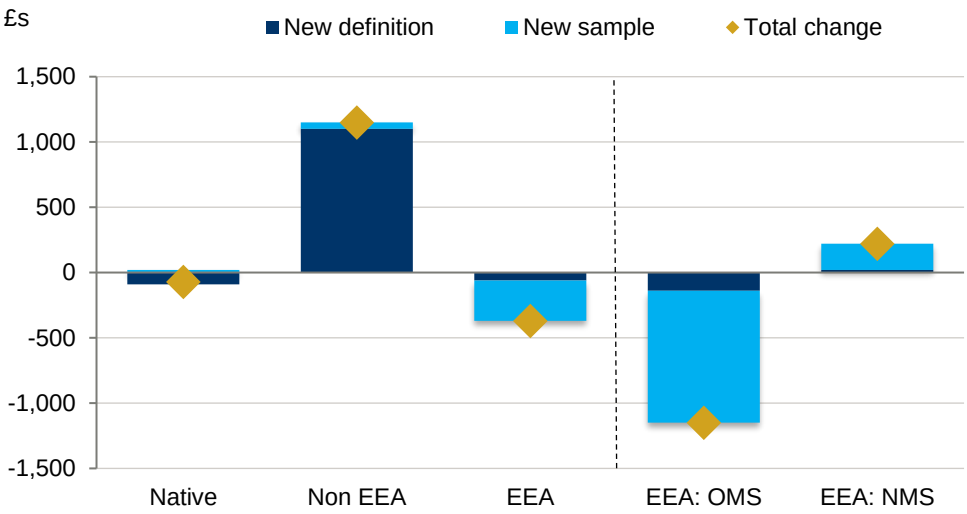
When producing this update two key factors have changed compared to our previous analysis. First, we have switched our definition of migrants to be based on reported *nationality* rather than country of birth in the LFS. This means that individuals in the survey who were born outside of the UK but when interviewed had obtained citizenship via naturalization have no longer been classified as migrants. Second, we have run our analysis using the latest waves of the LFS and FRS meaning that the characteristics of individual cohorts have changed due to sample variation. We have also updated the model to account for changes in fiscal policy in the intervening period but since

[1] Old member states (OMS) are those countries who joined the EEA or EFTA prior to 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Lichtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland. The new member states (NMS) are Bulgaria, Czech Republic, Estonia, Hungary Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Cyprus and Malta.

our primary focus is on the impact on cohorts' contribution *relative* to the national average, the impact of this change on our reported results is very limited.

Fig. 2: disaggregates the reported change in the estimated average fiscal contribution for each cohort between the element attributable to the change in definition and sampling variation respectively. For the non-EEA cohort, the vast majority of the change in net fiscal contribution can be attributed to the definitional change. On the other hand, for the EEA OMS cohort the reverse is true—most of the change reflects sample variation between years. The remainder of this section explores these changes in more depth.

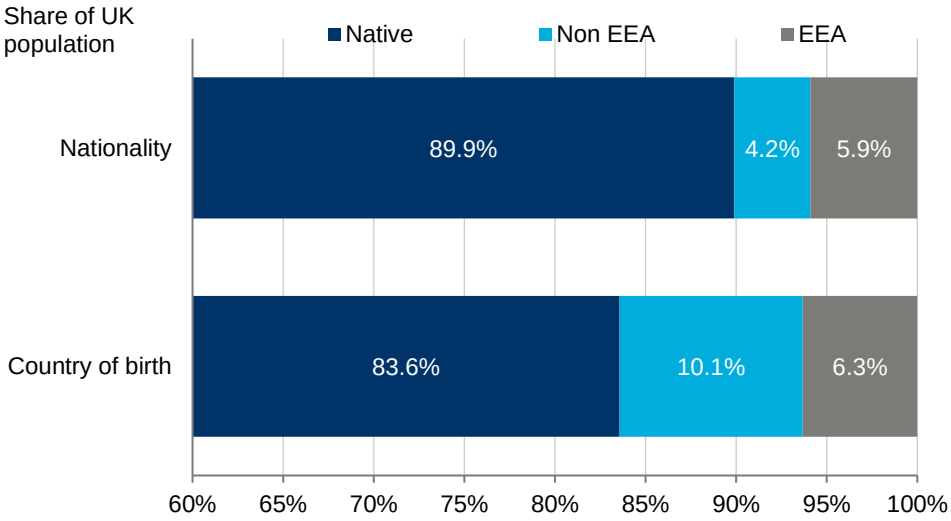
Fig. 2: Decomposition of change in cohort's estimated net fiscal contribution



Source: Oxford Economics

It is worth noting that the change in definition causes a sizeable shift in the estimated size of the non-EEA migrant population according to LFS data. The country of birth criterion used in the previous study implied that non-EEA migrants accounted for just over 10% of the UK population, a share that drops to just 4.2% using reported nationality. Non-EEA migrants may also have been more affected by visa rules which may affect earnings and hence, the net fiscal contribution. On the other hand, the size of the EEA migrant cohort remained largely unaffected suggesting that the likelihood of naturalization is far lower for someone born in the EEA (perhaps a reflection of the incentives created by free movement).

Fig. 3: Breakdown of UK population under alternative definitions of migrant status

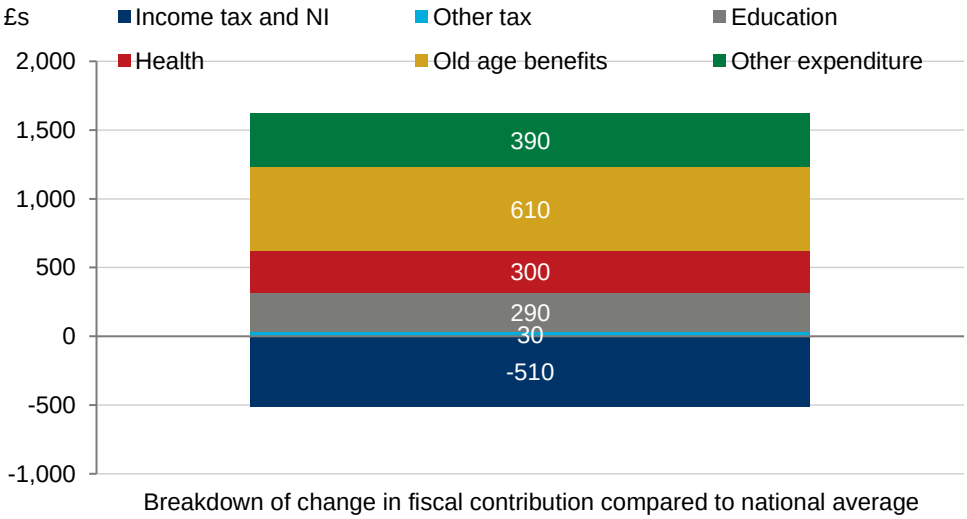


Source: Oxford Economics

The characteristics of our new smaller subsample of migrants also differ in ways that have substantive implications for their estimated net fiscal contribution according to our model. Their contribution to tax revenue is substantially lower but this is more than offset by a reduction in their estimated consumption of public sector expenditure. The salient points which drove these changes are as follows:

- The new cohort's employment rate (61% to 58%) and average earnings (£20,200 to £17,800) were both now lower reducing the cohort's estimated average contribution via income tax and NI in FY 16/17;
- The cohort's average age (45 to 40) dropped substantially meaning that they are assumed to consume a lower share of public sector spending on healthcare;
- Similarly, the share of the cohort over 65 dropped (13% to 7%) meaning that they are assumed to consume a lower value of age-related benefits, in particular the state pension and pension credits, on average; and
- The cohort had fewer under-19 dependents on average (1.91 vs 2.01 previously) meaning that they were allocated a lower share of educational expenditure.

Fig. 4: Breakdown of change in net fiscal contribution of non-EEA migrant cohort due to definitional change

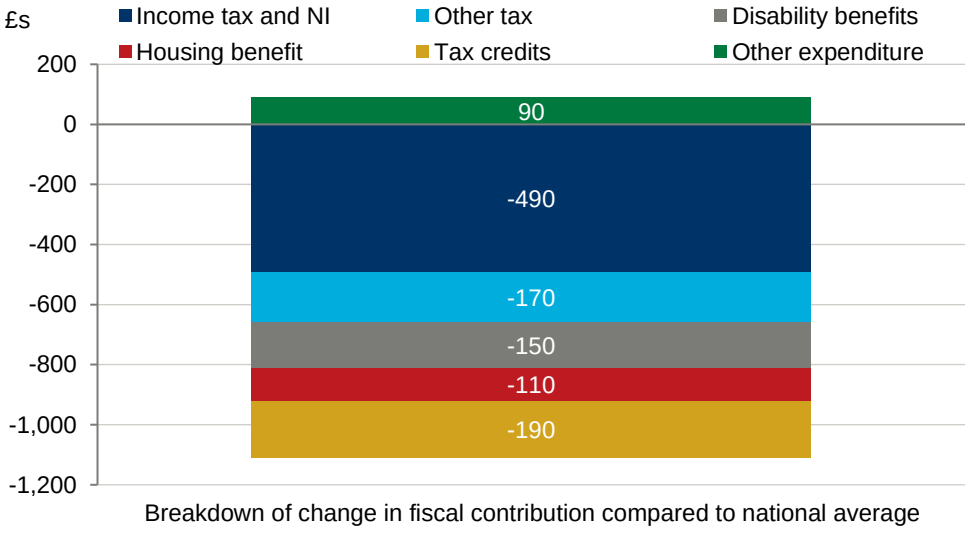


Source: Oxford Economics

Turning to the EEA OMS cohort, the characteristics of the sample of these migrants in the latest LFS also changed in a manner that had important implications for our estimated average net fiscal contribution. The salient points which drove these changes are as follows:

- Average earnings for the cohort fell by 0.5% compared to the previous sample in contrast to a rise of 3% in the rest of the sample (consistent with the UK macro trend).
- As a result, the cohort's average income declined compared to our previous analysis in contrast to the rest of the UK driving a decline in the group's relative contribution to tax revenue.
- In the updated cohort, the share of individuals claiming disability benefit and tax credits rose (2.1% to 2.7% and 13.5% to 15.4% respectively).
- Although the proportion of individuals claiming housing benefit actually fell (8.9% to 8.3%), this fall was smaller than the overall reduction in housing benefit claimants in the LFS sample.

Fig. 5: Breakdown of change in net fiscal contribution of EEA OMS migrant cohort due to sample variation



Source: Oxford Economics

2.2 EVALUATION OF FINDINGS

The change in migrant definition has important implications for the estimated net fiscal contribution of non-EEA migrants but none of the other cohorts. The newly defined cohort is younger on average which is consistent with the loss of naturalised UK nationals born outside the country. Since this process is lengthy the fall in age is intuitive. Other changes with implications for the cohort's average fiscal contribution flow from this e.g. fewer dependents and lower average earnings. Despite the latter, the overall impact on the cohort's net fiscal contribution is positive with a lower revenue contribution more than offset by a lower level of per capita consumption of public expenditure.

There was also a change in the estimated contribution of the EEA OMS group which was primarily driven by sample variation. It is not possible to conclude which sample is more representative of the underlying population. However, the estimated contribution to NI receipts in our 2016/17 study reconciles more closely to the HMRC tax return estimates. This would suggest that in terms of the distribution of earnings among those in employment the previous sample was more representative.

Nevertheless, we think that the changes have limited implications for the scenario analysis, the findings of which are presented in the next section. This reflects two key factors as follows:

- The estimated contribution of EEA migrants remains in the same ballpark as the previous study. The scenarios were run on the aggregate EEA migrant cohort and did not distinguish between the OMS and NMS sub-groups.
- The scenarios were run by restricting the entry of individuals depending on their average earnings. Therefore, what matters is that the model presents an accurate portrayal of the average fiscal contribution of EEA migrants within various earning bands.

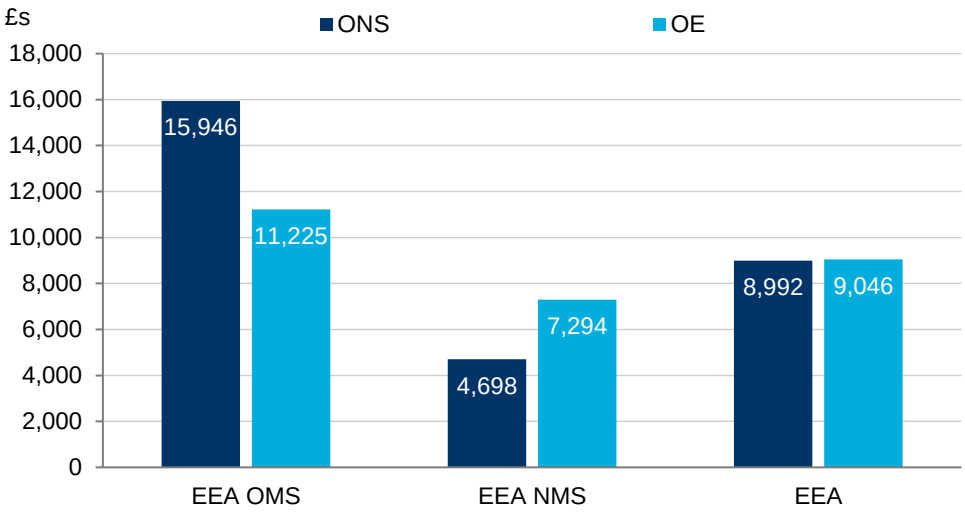
2.3 COMPARISON WITH HMRC DATA

The MAC has also asked us to compare our estimates with experimental data from HMRC that estimates the income tax and NI contribution payments of non-nationals and their consumption of child benefits and tax credits. As this HMRC data refers to FY 2016/17, as at the time of analysis FY2017/2018 data was unavailable, we have compared the information to results from our original analysis.

Fig. 6 illustrates that, on average, the contribution of EEA migrants via income tax and NI contributions was almost identical from both sources. However, there was a discrepancy between estimated average contributions of the EEA OMS and EEA NMS cohorts.

For the EEA OMS cohort, the much higher HMRC figure reflected higher income tax receipts – the average NI contribution was very similar. This suggest that the difference is likely driven by under-sampling of high-income individuals. These high net worth individuals may also derive a sizeable share of their income from non-labour sources, which is not measured in the LFS. In the EEA NMS cohort both average income tax and NI contributions are lower in the HMRC data. This implies lower average earnings compared to the subsample in the LFS.

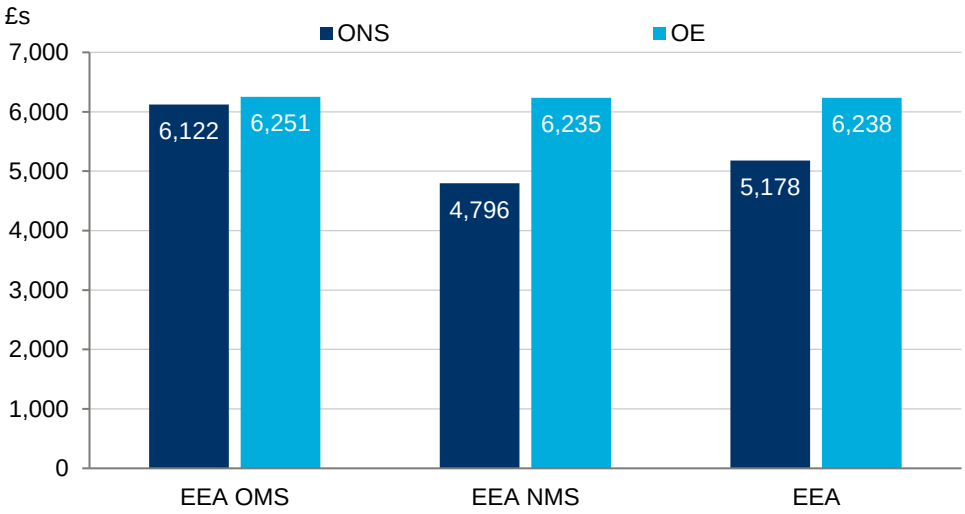
Fig. 6: Comparison of average contribution to tax revenue by different migrant cohorts in 2016/17: ONS vs OE estimates



Source: Oxford Economics, HMRC

Turning to child benefit and tax credit claims our estimates implied that EEA migrants claimed £6,238 per head via these two sources in FY 2016/17, around 20% higher than the equivalent ONS figure. This is primarily driven by higher estimated claims by the EEA NMS cohort (to some extent offsetting the impact of higher tax contributions from a net fiscal perspective).

Fig. 7: Comparison of average consumption of child benefit and tax credits by different migrant cohorts in 2016/17: ONS vs OE estimates



Source: Oxford Economics, HMRC

HOUSEHOLD ANALYSIS

Migrants with different household profiles vary considerably in their contributions to the UK's public finances. The fiscal contribution is determined not only by their income level but also by their familial status: whether they have dependents or a working partner.

For illustrative purposes, we focus on four hypothetical households to demonstrate how variation in household make up affects fiscal contributions. These are:

- A single working 20-year-old with no dependent children,
- A working 30-year-old with a non-working partner with no dependent children
- A working 30-year-old with a working partner earning the average wage with no dependent children
- A working 30-year-old with a working partner earning the average wage with two dependent children, one aged 3 and one aged 8.

Each hypothetical household is headed by a main earner who meets a mid-skill occupational (RFQ3+) requirement earning wages in the 10th, 20th, 35th and 50th percentiles of the RFQ3+ earnings distribution. Working and non-working partners are of any nationality.

Fig. 8: Estimated net fiscal contribution in FY 17/18 of employed migrant by earnings percentile and household characteristics

Percentile of RFQ3+ earnings distribution	10th	20th	35th	50th
Employee, no children, aged 20	£6,792	£10,031	£12,074	£15,954
Employee, non-working partner, both aged 30	£673	£3,912	£5,873	£9,753
Employee, working partner (earning the average), both aged 30	£8,582	£11,467	£15,142	£17,600
Employee, working partner (earning the average), both aged 30. Two children, one aged 3, one aged 8	-£7,426	- £4,541	- £865	£1,592

The ASHE (2019) gross annual earnings equivalents for these percentiles are 10th = £19,900, 20th = £24,300, 35th = £29,900 and 50th = £35,600

Discussion

At the 10th percentile of the RFQ3+ occupation earnings distribution, almost all hypothetical household are net contributors to the Exchequer. The exception is families with children who are the beneficiaries of a larger amount of state spending due to schooling requirements and entitlements to child benefit and tax credits. This variation in the fiscal contribution is consistent with the lifecycle analysis detailed in our previous report. The previous report also demonstrates that a couple's fiscal contribution is likely to rise again once dependent children have left home.

3. SCENARIO ANALYSIS

The design of migration policy is a complex topic requiring multifaceted socioeconomic considerations including the potential fiscal implications. The scenario analysis presented in this report illustrates the extent to which alternative salary thresholds would apply to the existing EEA migrant cohort and estimate the current fiscal contribution of this ineligible group. The modelling is restricted to individuals who arrived in the UK after 2004 and assumes there are no changes to access to benefits for EEA migrants.

3.1 SCENARIO DESCRIPTIONS

Our analysis draws on the MAC's own modelling. The MAC have developed a model which identifies whether an EEA migrant, within the existing stock who arrived since 2004, would have met certain pre-specified eligibility criteria. An individual's eligibility is determined based on their meeting requirements related to their earnings and skill level of the occupation they are employed in.

The applied salary thresholds for eligibility have been computed based on the distribution of earnings across the UK economy, and in some scenarios, within the individual's own occupation. In what follows, we discuss how the application of these policy levers, both separately and in tandem, affect the share of current EEA migrants that would be eligible and the current net fiscal contribution of the ineligible cohort. This does not consider any changes in access to public funds of EEA migrants. In all scenarios, these policy levers are used in conjunction with a mid-level occupation skill requirement (RFQ 3+) as set out in the Immigration White Paper.

We explored 23 different scenarios for the MAC which are summarised in Fig. 9. The scenarios can be categorised thematically as follows:

- Scenarios 1-4 impose a general threshold, independent of the individual's occupation, with the threshold level varying in stringency across scenarios.
- Scenario 5 instead requires migrants to have an annual salary equal to or above the 25th percentile within their occupation.
- In scenarios 6-9 eligibility is determined by the maximum of the salary threshold and the occupation going rate (set as the 25th percentile), thereby raising the overall threshold for eligibility.
- Scenarios 10-13 and 14-17 add caps to scenarios 6-9, at the 50th and 75th percentiles of the occupation's wage distribution respectively, ensuring that the restrictions are less restrictive for lower wage industries than would have otherwise been the case.
- Scenarios 18-21 replicate scenarios 1-4 but include an occupational earnings cap (set at the median for that individual's profession), an amendment which would ensure a less restrictive outcome for lower wage industries.
- Scenario 22 applies an RFQ 3+ skills threshold only and scenario 23 applies the current non-EEA migrant eligibility requirements

Fig. 9: Schematic of scenarios

Scenario number	Scenario threshold application			Description
	General threshold Percentile of eligible occupations	Occupation specific threshold	Occupation threshold cap	
1	10th	N/a	N/a	General threshold only.
2	25th	N/a	N/a	
3	35th	N/a	N/a	
4	50th	N/a	N/a	
5	N/a	25th	N/a	Occupation specific threshold only.
6	10th	25th	N/a	Higher of general or occupation specific threshold.
7	25th	25th	N/a	
8	35th	25th	N/a	
9	50th	25th	N/a	
10	10th	25th	50th	Higher of general or occupation specific, capped at median for occupation.
11	25th	25th	50th	
12	35th	25th	50th	
13	50th	25th	50th	
14	10th	25th	75th	Higher of general or occupation specific, capped at 75th percentile for occupation.
15	25th	25th	75th	
16	35th	25th	75th	
17	50th	25th	75th	
18	10th	N/a	50th	General threshold capped at median for occupation
19	25th	N/a	50th	
20	35th	N/a	50th	
21	50th	N/a	50th	
22	£0	£0	N/a	No salary thresholds just medium skill threshold
23	£30,000	25th	N/a	Current Tier 2 (General) salary thresholds

Notes: Percentiles of RQF3+ occupations ASHE 2019 £ equivalents, 10th=£19.9k, 25th=£26.1k, 35th=£29.9k, 50th=£35.6k; % binding calculated over EEA nationals who came to the UK on or after 2004

3.2 SCENARIO RESULTS

The full set of results for all 23 scenarios is reported in detail in the appendix of this document. In this section we provide a summary analysis of the results and their implications. We begin by noting the importance of the mid-skill occupational eligibility requirement (RQF 3+) in resulting in a fiscal gain for the Exchequer. We then examine how the value of the general threshold affects eligibility and the overall net fiscal contribution of the ineligible group. We then assess how the impact varies depending on the application of specific occupational and overall caps. To do so, we compare the results from scenarios which involve the application of a consistent earnings threshold (25th percentile). It should be noted that none of these scenarios consider any changes in access to public funds of EEA migrants, nor do they consider any income from visa fees, the Immigration Health Surcharge or an Immigration Skills Charge.

3.2.1 The impact of an occupational skill requirement

The minimum skills eligibility requirement is the main driver of the fiscal gains for the Exchequer. Applied alone, it would have made 55% of the current EEA migrant cohort ineligible in FY17/18. The majority of those made ineligible would have been either non-workers or lower skilled workers who are more likely to be to be low earners. Both groups tend to be net beneficiaries of the Exchequer. Our modelling suggests that, had the policy been implemented since 2004, there would have been boost to the public finances of £4.8 billion in FY17/18. Although, low income thresholds do lead to small additional gains for the Exchequer, these are marginal relative to those linked to the skills requirement.

3.2.2 The Impact of a general threshold

The impact of changing the general threshold on eligibility, as applied in Scenarios 1-4, is intuitive. By increasing the value of the threshold, eligibility requirements become more restrictive and a higher number of the existing EEA cohort become ineligible. Had the lowest salary threshold considered – set at the 10th percentile of the economy-wide earnings distribution - been applied, we estimate that 1.9 million EEA migrants would have been ineligible for entry to the UK. This figure rises to 2.3 million under the highest salary threshold considered (median earnings).

However, the implications for the net fiscal contribution are more subtle. This reflects the tension between increasing the absolute number of ineligible migrants whilst also minimising the share of ineligible migrants who are net contributors to the UK public finances. As the general threshold rises the proportion of ineligible migrants who would have made a positive net contribution to the Exchequer in FY 17/18 also increases. For example, in scenario 1 just one-in-three of the ineligible cohort made a positive net fiscal contribution a figure that rose to 40% in scenario 4.

As the proportion of net positive contributors in the ineligible stock of migrants rises, the average net fiscal contribution to the Exchequer of the ineligible cohort becomes less negative, ranging from -£2,900 in scenario 1 to -£2,125 in scenario 4, where a less negative figure implies a lower contribution to government finances as a result of the policy.

The implied impact on the Exchequer reflects a combination of the size of the ineligible migrant cohort and the average fiscal contribution of this group. Taken together, this implies that among scenarios 1-4, it is scenario 2, where the salary threshold is set at the 25th percentile of economy-wide earnings, which is found to have the maximal gain for the Exchequer. These gains are noted in the final column of Figure 10 and represent the net fiscal gain for the FY17/18 had the hypothetical policies been implemented in 2004.

Fig. 10: Overview of results: scenarios 1-4

Scenario	Size of migrant cohort ineligible under policy (millions)	Proportion of ineligible cohort who made a net positive fiscal contribution	Average net fiscal contribution of ineligible migrants (£s)	Net fiscal impact for FY 17/18 (£ billions)
1	1.90	33%	-£2,900	5.51
2	2.04	35%	-£2,703	5.52
3	2.11	37%	-£2,556	5.40
4	2.25	40%	-£2,125	4.78

Source: MAC modelling using APS data, Oxford Economics analysis

3.2.3 The Impact of Occupation specific thresholds and Caps

Next, we compare scenarios 2, 7, 11, 15 and 19. Each of these scenarios assumes a 25th percentile minimum salary threshold alongside a combination of occupation specific thresholds and occupational caps. Comparisons of the outcomes therefore provide insight into how the use of the latter affects the size of the ineligible cohort and the net fiscal contribution of this group.

Compared to scenario 2, scenario 7 imposes an additional eligibility requirement on migrants. Their gross annual salary must be the higher of a) the 25th percentile of all mid-skill occupation wages or b) the 25th percentile of wages within a given occupation. This additional restriction increases the number of ineligible migrants marginally from 2.04 million to 2.09 million. Analogous to the pattern reported in the previous section, the higher effective earnings threshold also leads to a higher proportion of those who are ineligible being net positive fiscal contributors and therefore a less negative average fiscal contribution among the ineligible cohort. Overall, the implication of these trends is that the fiscal contribution of ineligible migrants in FY 17/18 is slightly less negative when the additional occupational salary threshold is included.

Scenarios 11 and 15 impose caps on the overall threshold implied by scenario 7, at the 50th and 75th percentile of the occupation specific threshold respectively. This has implications for those individuals who meet the occupation going-rate requirement but not the overall income threshold, thereby relaxing requirements in some lower wage RQF 3+ professions.

As such marginally fewer migrants are ineligible under scenarios 11 and 15 relative to scenario 7 (2.09 million, 2.04 million and 2.07 million respectively). The share of the ineligible cohort that were net positive fiscal contributors is also marginally lower (scenario 11: 35.7%, scenario 15: 36.1% and scenario 7: 36.2%).

The implications of this for the aggregate net fiscal contribution of the ineligible cohort are commensurately modest. Scenario 15 delivers an additional £0.01 billion gain for the Exchequer relative to scenario 7, with scenario 11 delivering a further £0.01 billion. The greater number of ineligible migrants in scenario 7 is almost fully offset by the more negative average net fiscal contributions in scenarios 11 and 15. Arithmetically, the smaller ineligible cohorts are more than offset by a more negative average net fiscal contribution.

Finally, scenario 19, which combines a 25th percentile earnings threshold alongside a 50% overall cap, reduces restrictions relative to scenario 2. As in scenarios 11 and 15, the policy targets those who are employed in below-average-salary occupations. Scenario 19 is the least restrictive of the five policies discussed in this section, with 2.00 million ineligible migrants relative to 2.04 million in scenario 2. The average net fiscal contribution of the ineligible cohort is more negative in scenario 19, leading to a marginally larger fiscal gain overall.

Fig. 11: Overview of results: scenarios 2, 7, 11, 15 and 19

Scenario	Size of migrant cohort ineligible under policy (millions)	Proportion of ineligible cohort who made a net positive fiscal contribution	Average net fiscal contribution of ineligible migrants (£s)	Net fiscal impact for FY 17/18 (£billions)
2	2.04	35%	-£2,703	5.52
7	2.09	36%	-£2,564	5.35
11	2.04	36%	-£2,636	5.37
15	2.07	36%	-£2,585	5.36
19	2.00	35%	-£2,775	5.54

Source: MAC modelling using APS data, Oxford Economics analysis

3.3 DISCUSSION AND POLICY IMPLICATIONS

At the outset it is worth noting that the scenario analysis reported here adopts a deliberately simplified approach. In reality, had restrictions on free movement been implemented, as envisaged in these counterfactuals, this would have had a variety of dynamic economic effects (and indeed may have also affected the government's approach to non-EEA migration policy). As such, we have refrained from referring to the results as reflecting the *impact* of the policy assumptions associated with each scenario. In contrast, we would recommend interpreting the results as illustrative and a useful tool for discussion.

One notable feature of the scenario results is that the differences in outcomes are so modest. A key driver of this trend is that all the scenarios assume the application of a mid-skill occupational eligibility requirement (RQF 3+). Our modelling suggests that this criterion alone would make over 55% of the current EEA migrant cohort ineligible. Varying the salary thresholds, in addition to this, provides some further gain to the Exchequer. However, higher thresholds, beyond the 25th percentile of the earnings distribution, tend to lower the overall gains for the public finances.

Notwithstanding this, our results suggest that less restrictive eligibility criteria, of those considered might be the most effective from the perspective of the Exchequer. A relatively low general threshold (set at the 25th percentile of the earnings distribution) alongside an occupational cap which reduces the effective threshold for low wage RQF 3+ occupations is most effective in maximising the overall net fiscal contribution. Overall, this suggests that other policy aims can be pursued without significant fiscal implications.

APPENDIX 1

FISCAL CONTRIBUTION ANALYSIS

The fiscal update refreshes previous results which were published in the Oxford Economics' 2018 report 'The Fiscal Impact of Immigration in the UK'. The methodology used in the Fiscal Update follows that outlined in the detailed appendices in the 2018 report. The update, however, uses the 2017/2018 version of the UK Labour Force Survey. Migrants are also identified based on their nationality rather than their country of origin. The results of these changes are outlined in detail in Section 3.1.

SCENARIO ANALYSIS

The scenario analysis is based on the MAC's current research on whether EEA migrants, who have arrived since 2004, would have fulfilled particular eligibility criteria. These criteria are based on a combination of a mid-skill occupational requirement alongside income and occupation specific thresholds. The MAC's program, run on three years of pooled data from the Annual Population Survey (APS), provides a binary output for each EEA migrant indicating eligibility given pre-specified inputs. See Points-Based System and Salary Thresholds for Immigration", Migration Advisory Committee, January 2020 for a detailed discussion of their modelling approach.

We have reconciled these eligibility outcomes with our own estimation of the net fiscal contribution of EEA migrants. As our analysis is based on the 2017/2018 Labour Force Survey (LFS) and Family Resources Survey (FRS), rather than the APS, it was necessary to identify analogous groups of eligible and ineligible migrants in these datasets.

To do so, we have focused on characteristics which are likely to affect the net fiscal contribution and the eligibility of each migrant. Given the framework used to assess the static contribution, these are salary, labour force status (full time employment, part time employment, retired, in education, caring for the family home etc.), and the age profile of the migrant (16-34 and 35+) which is a strong control for the average number of dependents. This is then used to scale our estimates of the average fiscal contribution to the affected (eligible) cohort identified in the 2017/2018 LFS.

Fig. 1. Eligibility and net fiscal contribution by labour market status, earnings and age (LFS, APS 2017-2018)

Economic activity and earnings profile of migrant cohort	16-35	35+
	Net mean fiscal contribution (£)	Net mean fiscal contribution (£)
Students	-£4,136	-
Other inactive	-£10,443	-£13,814
Annualized earnings of less than £7,800	-£8,032	-£10,916
Annualized earnings of between £7,800 and £10,920	-£5,191	-£8,858
Annualized earnings of between £10,920 and £13,520	-£2,578	-£5,392
Annualized earnings of between £13,520 and £16,120	-£567	-£3,089
Annualized earnings of between £16,120 and £18,200	£1,787	-£1,746
Annualized earnings of between £18,200 and £21,320	£2,749	£746
Annualized earnings of between £21,320 and £24,440	£4,332	£2,653
Annualized earnings of between £24,440 and £27,560	£6,936	£5,018

Annualized earnings of between £27,560 and £30,160	£9,812	£5,446
Annualized earnings of between £30,160 and £35,360	£10,934	£9,941
Annualized earnings of between £35,360 and £42,640	£14,004	£13,976
Annualized earnings of over £42,640	£34,033	£34,454

This is a simplified approach which does not account for changes in labour market dynamics following the implementation of such a policy. Furthermore, the analysis reflects how the policy would affect the current stock of migrants and should be interpreted as providing insight into the implications of such a policy had it been implemented since 2004.

SCENARIO RESULTS

Scenario	Size of migrant cohort ineligible under policy (millions)	Proportion of ineligible cohort who made a net positive fiscal contribution	Average net fiscal contribution of ineligible migrants (£s)	Fiscal contribution of ineligible migrant cohort (£ billions)
1	1.90	32.95%	-£2,900	-5.51
2	2.04	35.17%	-£2,703	-5.52
3	2.11	36.71%	-£2,556	-5.40
4	2.25	39.60%	-£2,125	-4.78
5	1.97	35.22%	-£2,696	-5.31
6	2.00	34.91%	-£2,691	-5.37
7	2.09	36.20%	-£2,564	-5.35
8	2.14	37.35%	-£2,454	-5.25
9	2.21	38.87%	-£2,223	-4.92
10	1.99	34.99%	-£2,702	-5.36
11	2.04	35.73%	-£2,636	-5.37
12	2.07	36.33%	-£2,577	-5.33
13	2.10	37.15%	-£2,455	-5.16
14	2.00	34.91%	-£2,691	-5.37
15	2.07	36.07%	-£2,585	-5.36
16	2.12	37.03%	-£2,492	-5.28
17	2.20	38.75%	-£2,231	-4.91
18	1.89	33.02%	-£2,911	-5.51
19	2.00	34.70%	-£2,775	-5.54
20	2.04	35.69%	-£2,679	-5.47
21	2.10	37.01%	-£2,485	-5.21
22	1.77	34.75%	-£2,735	-4.84
23	2.24	38.86%	-£2,232	-5.01

Source: MAC modelling using APS data, Oxford Economics analysis

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