



Spatial Economics Research Centre

Wednesday, 22 June 2011

Immigration and the Housing Problem

Steve Nickell gave the final lecture in the [CEP 21st birthday lecture series](#) last night looking at the link between [immigration and the housing problem](#).

He started by highlighting the shift in the overall pattern of immigration in the UK from net negative (more people going out than in) to net positive (more in than out). This change is being driven partly by students and partly by flows from the A8 accession countries. These immigrants are spread pretty equally across skill groups (for those of you that follow the cricket - Steve Nickell suggests that in the last decade a majority of English test games have been played with an immigrant as captain).

Economic analysis suggests that these higher immigrant numbers have had little effect on average incomes, although they may have had a small negative effect (about 2-3%) on wages about the bottom of the income distribution. Most of the focus has been on these income effects but, as Steve pointed out last night, the most obvious measurable effect is the associated increase in population.

This brings us to housing because, as frequently discussed in this [blog](#) and [elsewhere](#) the UK [builds very few houses](#). Steve Nickell suggests that we need to build around 150,000 houses per year to cope with the increase in demand that comes from real income growth and another 120,000 per year cope with changing patterns of household formation. These kind of rates would be needed for price houses to real income ratios to stabilise.

The lecture was deliberately vague on how we might achieve this increase - some combination of "financial incentives" and "local authority ownership at sale of more land". Nickell was pessimistic about localism for reasons [I have discussed before](#). He also chose to be fairly non-committal on what his analysis suggested for overall immigration numbers, instead sticking to his main point that it would be unfair to blame immigration when the system is incapable of delivering sufficient housing to cover domestic demand.

Personally, I think the link from immigration to the housing problem does raise issues for those of us who believe the country should be reasonably liberal in terms of immigration policy. Overall, in terms of measurable (economic) costs and benefits the evidence suggests no effect on average wages, negative effects for the worst paid and increased house prices (with all the associated affordability problems). This leaves one pushing non-economic points (and here there are clearly costs as well as benefits) or looking to areas of the economy where we haven't been able to carefully measure the positive impacts. The most obvious area for further analysis is in terms of the dynamic effects coming from the impact of immigration on innovation. However, recent SERC evidence on immigration and innovation in cities doesn't suggest these effects are that strong (see SERC DPs [0068](#) and [0069](#))

Overall, I came away a little depressed. I suspect immigration will continue to be blamed for problems in the housing markets. I am also in agreement with Steve Nickell's assessment that we are still some way from the tipping point where politicians are able and willing to do something about [the underlying problems](#).

[Video, podcast etc of the lecture should be [available shortly](#)]

Posted by [Prof Henry G. Overman](#) on [Wednesday, June 22, 2011](#)

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