Immigration and Low-Skilled Work: The Pret A Manger Question

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There is much empirical evidence that suggests that, in the UK, immigration has little or no impact on employment or unemployment overall. But there's an unfortunate tendency for dialogues on this topic (oral or in response to economists writing about this topic) to go something like this. First, a respondent points to an example – they personally, or someone they know, has lost out on an employment opportunity to an immigrant. Or they note that a particular local business or sector seems to employ mostly immigrants – Pret A Manger in London is a frequent target. For this reason, David Metcalf, who chairs the government's Migration Advisory Committee, frequently talks of the 'Pret A Manger question'.

We economists usually respond to the question by saying that this is 'anecdotal evidence', sometimes (although I myself try not to use this phrase too much) referring to the lump of labour fallacy, and explaining again what the evidence says about overall or average impact. The respondent then concludes, perhaps understandably, that economists live in a statistical world which has little or no connection with reality; and worse, that when confronted with reality we are not interested.

I'd like to try to explain why 'anecdotal evidence', in this specific context, is indeed irrelevant, not because it is anecdotal, but because it is a partial rather than general equilibrium concept. That is, by definition, it tells you only the local or partial impact of something, which may or not be offset by developments elsewhere in the economy, which – by definition – the anecdote cannot tell you anything about.

To illustrate this I think it is helpful to look at a different example; not immigration, but inflation. Suppose that the price of goat's cheese goes up, as it is doing now, because of a Europe-wide goat cull (yes, for some of us this is a crisis). Now, what can we say about the impact on overall inflation?

- In the short term, consumers will adjust. They may buy less goat's cheese and more of other things;
- over time, so will other variables. The exchange rate may fall slightly (our terms of trade have worsened);
- the Bank of England, in accordance with its mandate, will adjust interest rates to ensure that the impact is not to push up inflation target in the medium term.

Most economists will therefore agree on the following points:

- There may be some impact on inflation in the short term. This will be less than one might expect just from the price rise, and the magnitude and persistence of the impact will depend on how the adjustment process works;
- there will be no impact at all on inflation in the medium to long term.

Now suppose you want to know how quick the adjustment is – does the adjustment take a week or a year? This is an empirical question for which need empirical evidence, and there are various ways you might think about finding that evidence. But the key point here is that the fact you're paying more for your cheese doesn't tell you anything about the answer to the initial question – the impact on inflation overall in the economy. It is not just that the price of cheese is 'anecdotal evidence'; it is that the anecdotal evidence about cheese tells you absolutely nothing about the question you are actually interested in, which is about the speed of the adjustment process in the wider economy.

The interesting and difficult question is not what happens in cheese shops or supermarket cheese aisles, but in all shops, for all prices. The adjustment could take a week or a year, but looking at the price of goat's cheese alone – no matter how many shops you go into – can't tell you. This is because inflation is a general equilibrium concept; it is determined by the overall levels of demand and supply in the economy, and looking at one price – a partial equilibrium concept - can't tell you anything.

The same is true for immigration and employment. Theoretically, it is quite possible that sandwich shops hiring immigrants increases unemployment for Britons in the short term, and it is equally possible that it doesn't. But the point is that establishing whether it does depends not on what you observe in the shops themselves, but what is happening in the wider economy – it depends on the wider adjustment process. The number of Britons employed in sandwich shops is a partial equilibrium concept, but the number employed overall – which depends not on sandwich shops, but overall levels of labour supply and labour demand, in addition to other factors – is a general equilibrium one.

So we need to know what happens to the Britons who are not employed in the shops, what happens to employment in other shops and sectors, and what happens to overall levels of wages and of consumer demand. Those are the factors that will determine the impact on unemployment. No matter how many sandwich shops you go into, and how many 'anecdotes' you accumulate about Poles working in them, this tells you nothing about the question that you are actually interested in.

So the point is not that anecdotal evidence is always invalid or irrelevant, or that it is not quantitative; it can often be very useful. Going into sandwich shops and talking to management and employees about how

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the industry is organised can tell you a lot about the employment practices of that specific industry, and how that might impact on migrant and native workers. And indeed there are many high quality research studies that use systematic and structured qualitative methods to do exactly this type of research. It is not just condescending, but wrong, for economists to dismiss all evidence that doesn't have numbers attached to it. But, when looking at economy-wide variables – inflation, unemployment – there is simply no alternative to looking at developments in the economy as a whole.