

ELECTION ANALYSIS

Immigration and the UK Labour Market: The Evidence from Economic Research

- Immigration to the UK had been rising from 1995 to 2008. Inflows to the UK had been falling since 2006 and now the stock of immigrants has also fallen back. This is because immigration almost always falls during a recession.
- By late 2009, 14% of the UK's working age population had been born abroad, up from around 8% in 1995. There are now 5.3 million adults of working age in the UK who were born abroad.
- The UK has a lower share of immigrants in its total population (10.2%) than Australia (25%), Germany (12.9%) or the United States (13.6%).
- Immigrants are arriving from many more countries than in the past. Poland, India and Pakistan are now the countries that contribute the biggest proportion of new arrivals, followed by South Africa and the United States.
- Compared with the UK-born, immigrants are younger and better educated. The most recent immigrants are even more educated. Immigrants are concentrated in London. About 60% of Brent's working age population was born overseas compared with under 3% in Knowsley.
- Aside from arrivals from other members of the European Union (EU), the number of new immigrants who are allowed to work in the UK is now controlled by the government through a 'points' system.
- Immigrants, on average, are *less* likely to be in social housing than people born in the UK, even when the immigrant is from a developing country. Only immigrants who became UK citizens are neither more nor less likely to be in social housing than UK-born individuals.
- There are potential economic benefits associated with migration, especially to fill gaps in the UK labour market – where there are shortages of workers, whether high- or low-skilled. While there may be costs to particular groups, there is little evidence of an overall negative impact on jobs or wages.

Introduction

There is little doubt that the share of immigrants in the UK's working age population is now higher than in the past (see Figure 1). Fifteen years of rising immigration between 1993 and 2008 means that there are now 6.8 million individuals (and 5.3 million adults of working age) living in the UK who were born abroad, up from 2.9 million in total (and 2.3 million of working age) in 1979.

Over the same period, the UK-born population grew from 52 million to 54.2 million (and from 30.3 million to 32.7 million of working age).

Since the fourth quarter of 2008, there has been a decline in the stock of immigrants living in the UK (see Figure 1). Just as happened in previous economic downturns, part of the explanation may be the onset of the latest recession.

The stock of immigrants is affected by both the size of inflows and the duration of stay, which in turn is related to the number of outflows of immigrants. Data on inflows come from two sources: the Labour Force Survey (LFS) and the International Passenger Survey (IPS).

According to the LFS, the inflow *rate* of immigrants into the UK has been falling since 2006. According to the IPS, immigrant inflow numbers have been broadly stable from 2006 to 2009. Moreover, *net* annual inflows (inflows minus outflows) have been on a downward trend since 2007, from a peak of over 200,000 to the current level of 147,000.¹

At the same time, there has been a fall in the number of new asylum-seekers. These people form a group that is distinct from immigrants: asylum-seekers cannot legally work until their application has been granted. Asylum applications rose from 32,500 in 1997 to reach a peak of 84,130 in 2002 before falling back to 24,000 in 2009.

The stock of immigrants in the UK is influenced both by the UK's economic performance relative to other countries and by immigration policy. Just as in Canada and Australia, the UK now has a points-based immigration system, which seeks to restrict immigration from outside the European Union (EU) to skilled individuals. In practice, the number of arrivals who come from outside the EU to study or for family reunion every year still exceeds those arriving for work-related reasons.

Immigration has risen in almost all industrialised countries over the past decade, where the average share of immigrants in the population has increased from 10.7% to 13.8% between 1998 and 2007.² Spain, Austria, Ireland and the United States have all experienced similar-sized proportionate increases in immigration in recent years.

The UK is still a middle-ranking country in terms of how many immigrants live here. The OECD's internationally comparable figures for 2007 indicate that 10.2% of the UK's total population was foreign-born. This is below countries like Canada (20.1%), Germany (13%), the Netherlands (10.7%) and Sweden (13.4%).³

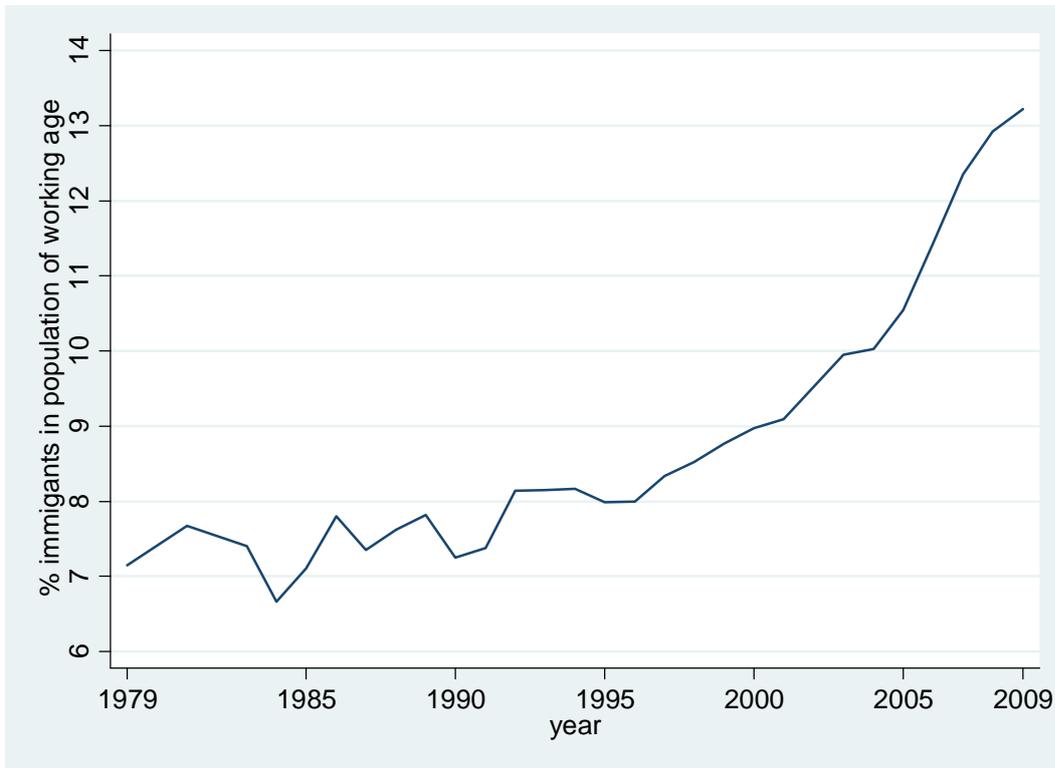
¹ <http://www.statistics.gov.uk/pdfdir/mig0210.pdf>

² OECD, *International Migration Outlook 2009*

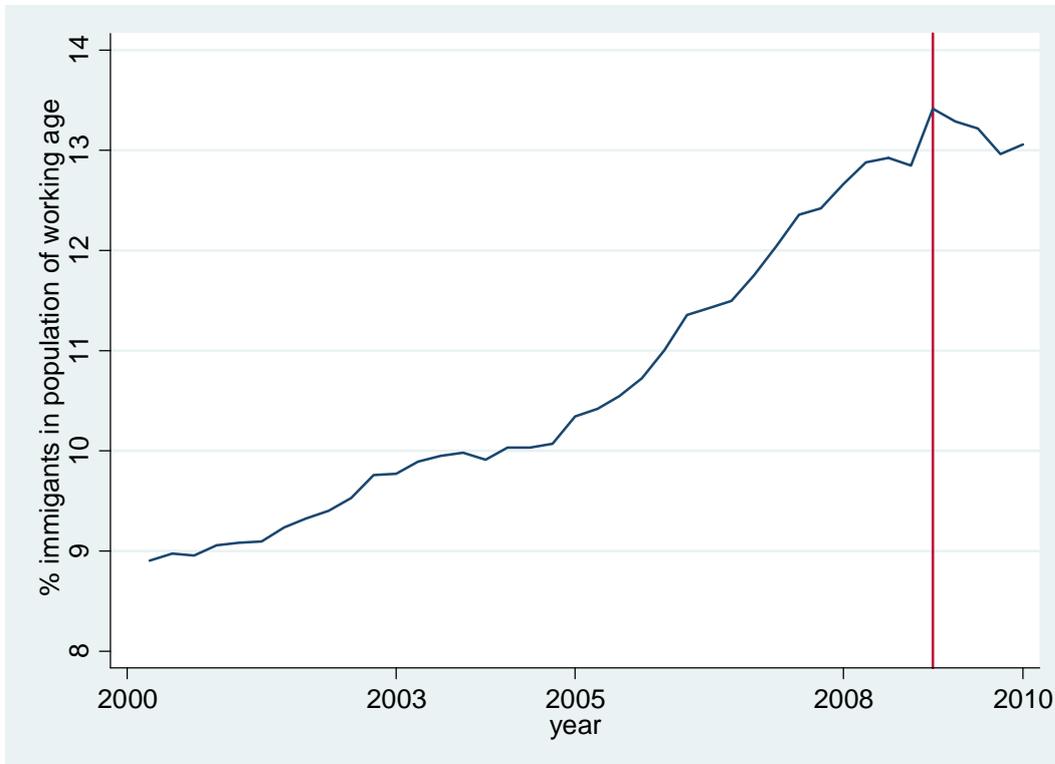
³ OECD, *International Migration Outlook 2006*

Figure 1: The share of immigrants in the UK's working age population

A. Long run – percentage of immigrants in working age population, 1979q2-2009q2



B. Short run – percentage of immigrants in working age population, 2000q1-2009q4



Source: Labour Force Survey.

Which countries do immigrants come from?

Table 1 shows the country of origin of the top five ‘sender’ countries in 2009 for the stock of existing immigrants and the flow of new immigrants. Many new immigrants – those who have been in the country for less than a year – are not primarily from the poorest countries, but from developed countries or wealthier emerging countries like South Africa.

The sender countries are much less concentrated than in the past. Twenty years ago, one third of all immigrants came from just two countries, Ireland and India. Now these two countries account for just 12% of all immigrants. The top three sender countries for the new arrivals to the UK in 2009 were Poland, India and Pakistan.

Table 1: Country of origin of immigrants to the UK (percentage share in brackets)

Largest senders	1985	2009
All immigrants		
1	Ireland (16.5%)	India (10.7%)
2	India (13.5%)	Poland (7.9%)
3	Pakistan (6.9%)	Pakistan (7.2%)
4	Jamaica (5.1%)	Germany (5.1%)
5	Germany (4.6%)	South Africa (3.4%)
New immigrants (arrived in last year)		
1	United States (20.6%)	India (11.4%)
2	Ireland (10.6%)	Poland (8.9%)
3	India (5.2%)	United States (5.6%)
4	Pakistan (4.1%)	South Africa (3.9%)
5	Germany (3.9%)	France (3.5%)

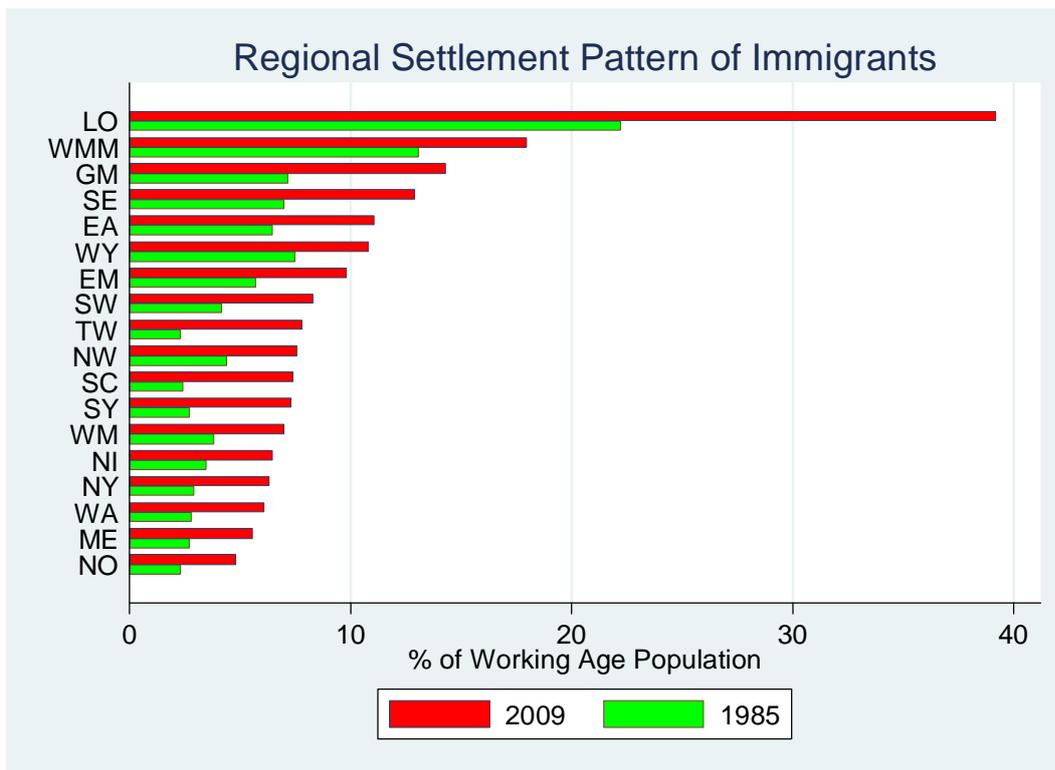
Source: Labour Force Survey.

Where do immigrants settle?

While the stock of immigrants has risen in all regions over time, it has risen most in London. Although there is some evidence to suggest that new immigrants are more regionally dispersed than in the past, immigrants constituted 39% of London’s population in 2009 (see Figure 2).

The geographical dispersion of immigrant share across local areas is much larger. Around 60% of the working age populations of Brent and Westminster were born overseas compared with less than 3% of the populations of Knowsley or Redcar & Cleveland.

Figure 2: Immigrant share of regions' working age populations



Source: Labour Force Survey.

Note: LO=London, WMM=West Midlands Met., GM=Greater Manchester, SE=South East, EA=East Anglia, WY=West Yorkshire, EM=East Midlands, SW=South West, TW=Tyne & Wear, NW=North West, SC=Scotland, SY=South Yorkshire, WM=Rest of West Midlands, NI=Northern Ireland, NY=North Yorkshire, WA=Wales, ME=Merseyside, NO=North of England

What skills do immigrants have?

Immigrants are, on average, more educated than their UK-born counterparts, and the educational attainment gap has been rising over time since more recent immigrants are more educated, on average, than other immigrants (see Table 2).

While more than half of the UK-born workforce left school at 16 or earlier, fewer than one in six new immigrants finished their education by the age of 16. Just under one in five UK-born members of the workforce finished education at 21 or later compared with more than one in three immigrants and more than 50% of all new immigrants.

Table 2: Education and immigrant status (working age population), 2009

Age finished education	Percentage of group with each level of education		
	UK-born	All immigrants	New immigrants
16 or under	53.1%	24.8%	15.4%
17-20	28.2%	36.5%	34.0%
21 or older	18.7%	38.7%	50.6

Source: Labour Force Survey.

Education partly reflects immigrants' occupation and industry. There is a larger share of immigrants than UK-born working in professional occupations. But there are more immigrants, particularly new immigrants, in the elementary occupations (such as bar work and waiters) than might be expected given their qualifications (see Table 3). The hotel and restaurant sectors employ relatively more migrant workers than other sectors. The agriculture and energy sectors employ relatively fewer migrant workers than other sectors (see Table 4).

Table 3: Occupational distribution of immigrants and UK-born, 2009

	Percentage of group in each occupation		
	UK-born	All immigrants	New immigrants
Managerial	16.4%	12.6%	8.7%
Professional	13.1%	16.5%	18.9%
Assistant professional	14.7%	14.2%	8.7%
Administrative	11.6%	8.3%	5.7%
Skilled trades	10.8%	9.1%	8.3%
Personal service	8.8%	8.7%	11.0%
Sales	7.4%	6.5%	7.6%
Processing	6.9%	8.5%	2.7%
Elementary occupations	10.4%	15.7%	28.4%

Source: Labour Force Survey.

Table 4: Industrial distribution of immigrants and UK-born, 2009

	Percentage of immigrants in each industry	
	All immigrants	New immigrants
Agriculture	6.3%	0.2%
Manufacturing	11.1%	0.5%
Energy	6.7%	0.1%
Construction	8.3%	0.2%
Retail	11.0%	0.5%
Hotels and restaurants	22.7%	2.0%
Transport	14.7%	0.3%
Finance	13.3%	0.8%
Public administration	7.8%	0.2%
Education	9.2%	0.3%
Health	14.1%	0.5%
Other	8.6%	0.4%

Source: Labour Force Survey.

Some costs and benefits of immigration

There are many potential benefits of allowing the mobility of labour across international borders, just as there are benefits from the trade of goods, services and capital.

First, economic immigrants can ease shortages in the job market. Until 2008, the UK had a buoyant labour market and still has relatively low unemployment. There remain labour shortages in some areas such as the high turnover retail and hospitality sectors and high demand for very skilled workers as indicated by the growth in the wage premium for people with a university education since 1980 despite large increases in the number of university graduates.

Second, immigrants are typically younger than average, which can help with filling particular niches and balancing the generational gap in financing pension provision.

Although immigration will help keep the economy growing through the provision of goods and services that may not have been produced in the absence of immigration, there may be costs for particular groups. Simple economic analysis predicts that immigration may put downward pressure on the wages of workers who are in direct competition with immigrants.

Equally there may be costs to increased immigration if there is increased pressure on housing, health and welfare services.

Unlike in the United States, where the skill composition of immigrants is tilted towards the unskilled, the skill composition of immigrants to the UK is more biased towards skilled workers.⁴ It might be expected therefore that there would be more pressure on wages among skilled workers in the UK, unless immigrants look for jobs that are not commensurate with their skills or it is harder to transfer certain acquired skills from one country to another.

Furthermore, if demand for labour is rising, there may be no effects of immigration on wages and employment. An open economy may adjust by means other than wages: one such mechanism is adjustment by changing the mix of goods the economy produces.

A recent study of the fiscal impact of immigration of workers from the eight EU accession countries of Central and Eastern Europe (the A8) concludes that because this group of immigrants are more likely to be in work and make less use of welfare and other public services, their net contribution is positive.⁵

What is the evidence on the labour market benefits and costs of immigration?

As ever, it is useful to consider the evidence rather than rely on perceptions about the effects of immigration. Recent empirical research on the labour market effects of immigration to the UK finds little evidence of overall adverse effects of immigration on wages and employment for people born in the UK.⁶

Nevertheless, there may be some downward pressure in the low wage labour market where (despite their higher relative education levels) many new immigrants tend to find work.

⁴ Dustmann et al (2005).

⁵ Dustmann et al (2009).

⁶ Manacorda et al (2007).

There may also be a positive effect on wages in the high wage labour markets where it may take more time for the skills that immigrants bring to transfer.⁷

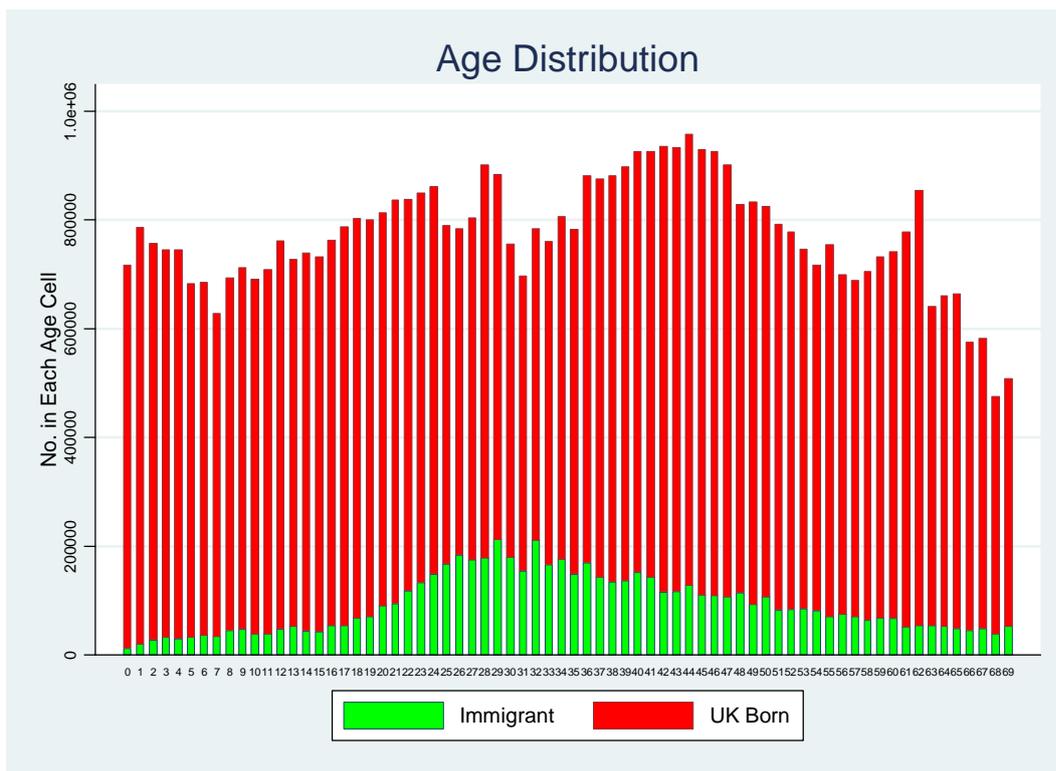
Population pressures

There has been some concern that rising immigration puts extra pressure on schools and on the housing market. These are areas in which there is still little hard evidence.

Figure 3 compares the numbers of immigrants in each age group with the numbers of UK-born individuals in the same age group. Since most immigrants to the UK arrive as young adults, there are few children among the stock of immigrants and hence the numbers of children born abroad are small compared with the numbers of children born in the UK, which have also been declining because of a falling birth rate.

Together these demographic pressures on schooling resources should, on average, be small. But there may be more pressure in a few areas of the country, such as London, where immigration is concentrated. In 2009, more than one quarter of all 25-30 year olds (and 55% of all 25-30 year olds living in London) had been born abroad.

Figure 3: Numbers of immigrants by age group, 2009 (men and women), thousands



Source: Labour Force Survey

Housing

Concerns have also been raised that rising immigration may be putting pressure on the housing system. Any increase in population means increased demand for housing services

⁷ Dustman et al (2007)

and if supply does not meet demand, this could lead to rising prices or increased queues for social housing.

There is, as yet, no evidence of the effect of immigration on house prices and rents, though we do know that immigrants are much less likely to be in owner occupation and much more likely to be in private rental accommodation (see Table 5).

With regard to social housing, new immigrants from outside the EU have no entitlement to social housing. Entitlement depends on citizenship, which in turn depends on years of residency in the UK, and then household needs.

Table 5 summarises the percentage point differences in the effect of immigrant status relative to UK-born individuals on the chances of being in social housing accommodation after controlling for age, qualifications, labour force status, marital status, number of children and region of residence. Table 5 also gives estimates for all immigrants and then for different groups of immigrants – immigrants who are now UK citizens, EU citizens, immigrants from the OECD and other immigrants.

Table 5: Immigration and housing tenure

	Percentage point difference relative to UK-born individuals, net of controls		
	Owner occupation	Private rental	Social housing
All immigrants	-38	+43	-5
Effect of one extra year in the UK	+1	-1	+ 0.1
Of which:			
UK citizens	+6	-6	0
EU citizens	-27	+33	-6
OECD immigrants	+4	+4	-8
Other immigrants	-19	+21	-2

Source: Annual Population Survey 2008, Population of Working Age.

The column on social housing shows that immigrants, on average, are 5 percentage points *less* likely to be in social housing on arrival. Thereafter, the chances of being observed in social housing rise by around 0.08 percentage points each year. A positive effect of years of residence is to be expected, since this is correlated with residency conditions and increased entitlement to welfare services.

Overall this suggests that immigrants are, on average, less likely to be in social housing. Disaggregating the stock of immigrants by country of origin, Table 5 shows that immigrants from the EU, from the OECD and other immigrants are all less likely to be in social housing. Only immigrants who became UK citizens are neither more nor less likely to be in social housing than UK-born individuals.

How do immigrants fare in the labour market?

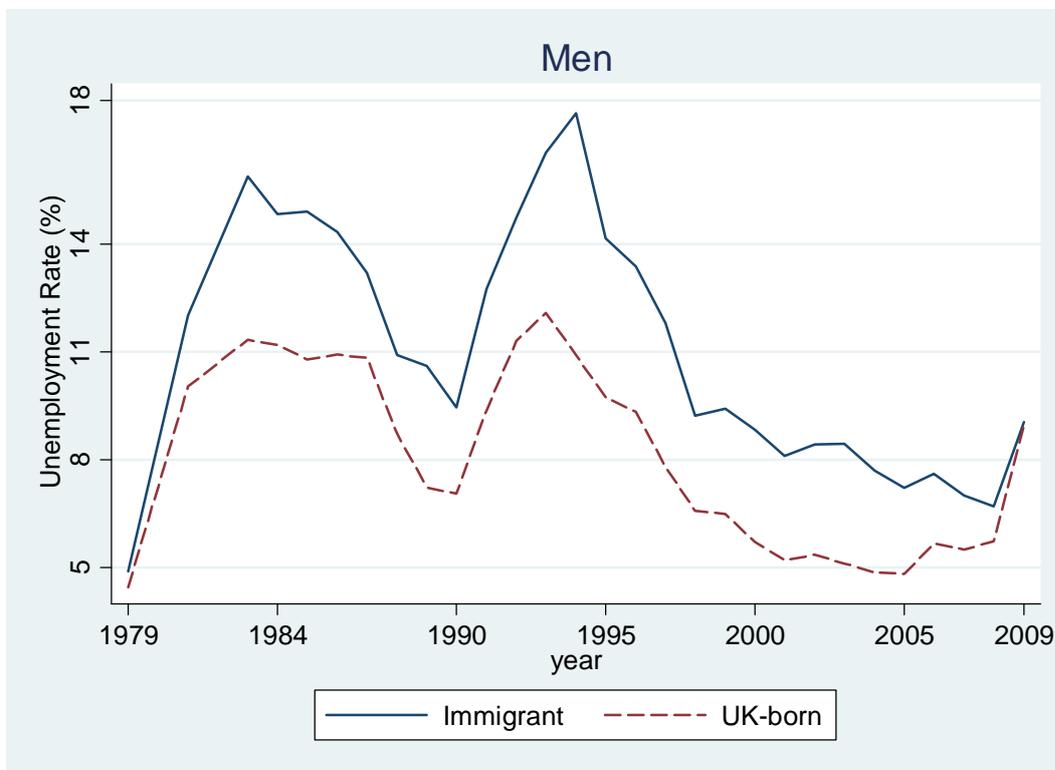
For policy purposes, it is important to know whether immigrants benefit from economic

conditions in the host country and, if so, how quickly they adapt and how this adaptation process changes with time or across policy regimes. The evidence suggests that over time, relative wage and employment prospects for immigrants to the United States appear to have deteriorated in a way that is not as apparent in the UK.⁸

Equally, there appear to be very few wage and employment effects of rising immigration on UK-born workers, on average. There are some hints in the data, that immigrants can put some downward pressure on the employment and job prospects of some of the less skilled.⁹

There is now very little difference between the employment rates of immigrant and UK-born men. Historically the employment gap has widened in recessions and narrowed in economic recoveries. This has not been observed during the latest recession. Unemployment rates for immigrants and UK-born have risen together by similar amounts (see Figure 4).

Figure 4: Unemployment for immigrants and UK-born men



Source: Labour Force Survey

In 2009, 81% of working age immigrant men had jobs compared with 79% of working age UK-born men (excluding students). Immigrant males are, on average, a little more likely to be unemployed but less likely to be economically inactive.

The higher average unemployment rate of immigrants was explained in part by the fact that many of them were employed in casual and insecure jobs: anyone who is in this sort of job faces much higher risks of subsequent unemployment. New immigrants cannot claim state benefits unless they are working or have paid sufficient contributions when in work.

⁸ Schmitt and Wadsworth (2008)

⁹ Dustmann et al (2008)

Labour market performance is strongly influenced by age and education, which are factors that also determine the chances of coming to live in the UK. Table 6 gives a sense of the extent to which country of origin differences in employment rates can be accounted for by differences in age and education.

Among men, many immigrant groups have higher employment rates than UK-born men. Differences in age and educational attainment can account for much of the better relative employment performance among Indian immigrants and immigrants from the OECD, but not immigrants from elsewhere.

Table 6: Differences in employment rates between immigrants and UK born

	Percentage point difference in 2009 employment rate compared with UK-born			
	Men		Women	
	No controls	Controls for age and education	No controls	Controls for age and education
India	+4.4	0	-15.1	-14.2
Pakistan	-6.6	-6.5	-54.5	-41.5
Bangladesh	-9.0	-9.3	-56.2	-42.6
A8 accession	+12.8	+10.7	0	+4.8
Other EU	+4.0	+2.5	0	-3.8
OECD	+7.0	0	0	-5.7
Other immigrants	-2.5	-5.9	-12.0	-12.3

Source: Labour Force Survey.

Among women, there are much lower employment rates for some immigrant communities compared with UK-born women. Age and education can account for around one quarter of these differences among women born in Pakistan and Bangladesh, but more research is needed to understand the reasons for these differences.

Conclusions

During periods of strong economic growth, migration is and has always been important for filling gaps in the labour market. On balance, the evidence for the UK labour market suggests that fears over the consequences of rising immigration have been exaggerated. It is hard to find evidence of much displacement of UK workers or lower wages, on average. Immigrants, especially in recent years, tend to be younger and better educated than the UK-born and are less likely to be unemployed. They certainly do *not* receive preferential access to housing.

But there have been some effects. The less skilled may have experienced greater downward pressure on wages and greater competition for jobs than others, but these effects still appear to have been relatively modest. Unfortunately we don't know much about whether the effects of immigration are different in downturns. We also need to understand more about how capital and sectoral shifts in demand respond to immigration over the longer run.

Future migration trends will, as ever, depend on relative economic performance and

opportunity. But we still need to know more about the effects of rising immigration beyond the labour market in areas like prices, housing, health, crime and welfare.

April 2010

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