

# ELECTION ANALYSIS

## Immigration: The Evidence from Economic Research

- According to the Labour Force Survey, in 2004, 11% of the UK's working age population was born abroad, up from around 7% of the population in 1979.
- In 2003, there was a net inflow of 151,000 immigrants to the UK. The UK has a slightly lower number of immigrants as a proportion of its population than France or Germany.
- Compared with people born in the UK, the stock of immigrants are younger, more likely to be either well educated or badly educated, and concentrated in London.
- Unlike in the United States, where the skill composition of immigrants is biased towards the unskilled, the skill composition of immigrants to the UK is roughly similar to that of the resident population.
- Looking at the flow of new immigrants, India is the country that contributes most (11%) to new arrivals, followed by South Africa (5%), then Poland (5%).
- There are many economic benefits associated with migration, especially to fill gaps in the UK labour market – where there are shortages of workers, whether high skilled or low skilled. In theory, there can also be costs to particular groups, but there is little evidence of an overall negative impact on jobs or wages.
- The recent increases in net immigration to the UK are a sign of the strength of the economy.
- The number of legal immigrants is controlled by the government through the work permit system. The political parties disagree on whether the absolute number should be subject to an annual quota.



## Introduction

This analysis discusses some of the economic issues and facts around migration.<sup>1</sup> There has been a long-run trend towards more immigration in most developed countries and the UK is no exception. The OECD's internationally comparable figures for 2000/01 indicate that 8.3% of the UK's total population was foreign born. This is below countries like Germany (12.5%), France (10%), the Netherlands (10.1%) and Sweden (12%).<sup>2</sup>

In 2003, there was a net inflow of immigrants to the UK of 151,000 people.<sup>3</sup> This is under three tenths of 1% of the country's population. The top three 'sending' countries for the new arrivals in 2004 were India, South Africa and Poland. Looking at the stock of those born outside the UK, immigrants are younger, more likely to have degrees (and more likely to have no qualifications) and work disproportionately in the health and education sectors. 40% of them live in London.

In recent years, there has been an increase in the number of asylum-seekers. They are a distinct group from immigrants as they cannot legally work. Asylum applications rose from 32,500 in 1997 to 84,130 in 2002.<sup>4</sup> The government has significantly toughened up the ability of asylum-seekers to come to the UK and the numbers are falling dramatically – back to 1998 levels in 2004.

## What are the economic benefits and costs of immigration?

There are many 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. The UK has a relatively buoyant labour market with an employment rate of about 75%. There are acute labour shortages in the public sector (health and education) and to fill low paid jobs in places like London. There is also high demand for highly 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 younger, which can help with filling particular niches and balancing the generational gap in pension provisions.

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 those workers who are in direct competition with immigrants.

But this is more likely to happen if the skill composition of immigrants is sufficiently different from that of the resident workforce – which is not the case in the UK. Unlike in the United States, where the skill composition of immigrants is biased towards the unskilled, the skill composition of immigrants to the UK is roughly similar to that of the resident population.<sup>5</sup>

Furthermore, if demand 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.

Empirical research on the effects of immigration to the UK on employment and wages finds little evidence of overall adverse effects of immigration on outcomes for people born in the UK. Factoring in illegal immigration would not change these results: in fact, if illegal immigrants could be measured, accounting for them is likely to lead to smaller empirical effects.

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<sup>1</sup> For a more detailed analysis, see Wadsworth (2003).

<sup>2</sup> Dumont and Lemaitre (2004)

<sup>3</sup> <http://www.homeoffice.gov.uk/rds/pdfs04/hosb1204.pdf>

<sup>4</sup> Excluding dependents: see <http://www.homeoffice.gov.uk/rds/pdfs04/hosb1104.pdf>;

<http://www.homeoffice.gov.uk/rds/pdfs05/asylumq404.pdf>; *The Economist*, 9/4/05.

<sup>5</sup> Dustmann et al (2005)

## What are the facts on immigration?

### *How many immigrants are there?*

The share of immigrants (those born abroad) in the working age population began rising after the end of the last recession to around 10.5% of the population of working age (see Figure 1). There were around 3.8 million individuals born abroad in 2004 compared with 2.3 million in 1979. Over the same period, the working age population of UK born rose from 29.6 to 31.4 million.

The population of UK born younger adults has been falling and the population of UK born older adults rising over the last 25 years. At the same time, the supply of immigrants is rising.

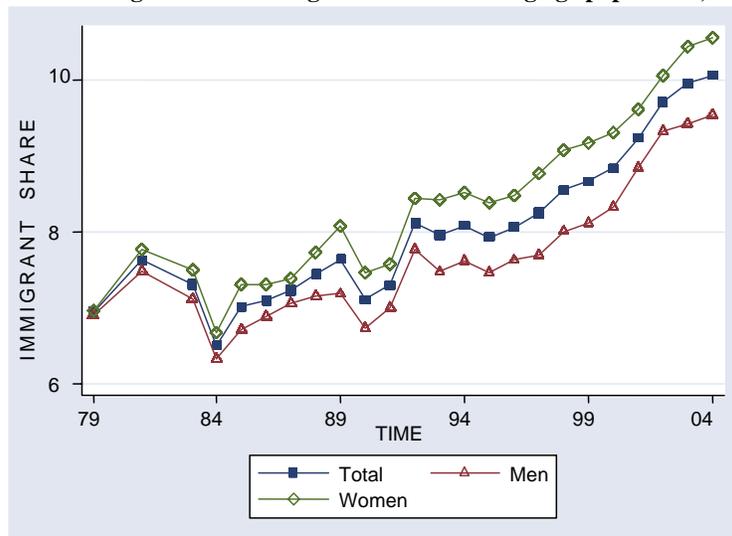
Allowing more young immigrants into the country helps to alleviate the 'dependency ratio' problem, whereby the taxes of a dwindling number of working age individuals have to support growing numbers of individuals above retirement age.

The Labour government has made changes to improve the ability of immigrants to get work permits to meet skill shortages. There were about 50,000-60,000 economic immigrants a year in the early 1980s to mid-1990s, but this rose to about 100,000 a year after 2000.

### *Age*

Immigrants are younger than their UK born counterparts (see Figure 2). About 15% of men in their late twenties are immigrants whereas only about 6% of men in their early fifties are immigrants. Over time, the proportion of young people who are immigrants has risen. This reflects the twin facts that the total number of immigrants has risen and the UK's birth rate is falling. Immigration is therefore contributing to keeping the dependency ratio (of older people to the working population) down.

**Figure 1: Percentage share of immigrants in the working age population, 1979-2004**

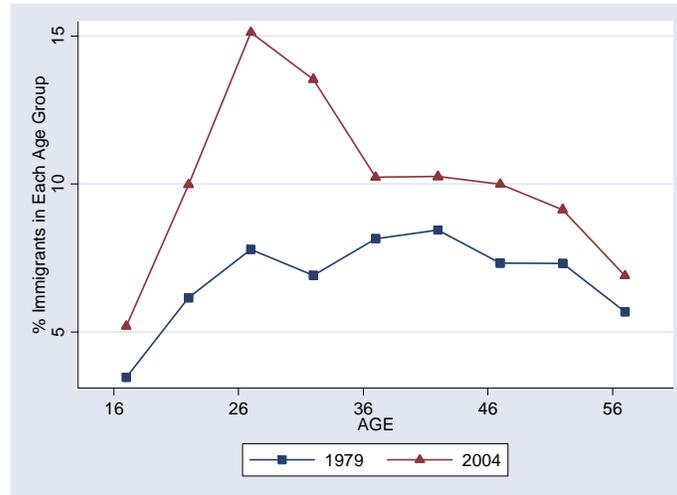


Source: Labour Force Survey

### *Skills and occupations*

Immigrants are a mixed group (see Table 1). Compared with people born in the UK, immigrants are more likely to have degrees (20% compared with 17%). But they are also more likely to have no qualifications (20% compared with 15%). They are particularly important for the health and education sectors. For example, 27% of health professionals and 22% of research professionals are immigrants, compared with the proportion of the overall working population who are immigrants, which is 11%.

**Figure 2: Proportion of immigrants by age group, 2004 (men and women)**



Source: Labour Force Survey, 1979 and 2004

**Table 1: Qualifications by immigrant status (working age population, percentage of stock) 2004**

	UK born	Immigrant
Degree	16.8	20.0
Intermediate	68.5	60.9
None	14.8	19.1

Source: Labour Force Survey (excluding students), 2004

*How do immigrants fare in the labour market?*

Immigrants are, on average, a little more likely to be unemployed or inactive, though this average varies widely by factors such as years since arrival. In 2004, 79% of working age immigrant men had jobs compared to 83% of working age UK born men. This gap tends to widen in recessions and narrow in economic recoveries.

The higher unemployment rate is explained by the fact that many immigrants are 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.

*Which countries do immigrants come from?*

Table 2 shows the country of origin of the top five sender countries in 2004 for the stock of existing immigrants and the flow of new immigrants. Interestingly, the new immigrants are not primarily from the poorest countries, but from developed countries or wealthier emerging countries like South Africa.

**Table 2: Top five ‘sender’ countries in 2004**

Stock (percentage of existing immigrants)		Flow (percentage of new arrivals)	
	Percentage with graduate qualifications		Percentage with graduate qualifications
India (10.0)	21	India (10.9)	26
Pakistan (6.9)	11	South Africa (5.4)	14
Bangladesh (5.4)	8	Poland (5.2)	4
Germany (4.5)	21	United States (4.5)	9
South Africa (4.3)	21	Australia (4.0)	15

Source: Labour Force Survey

*Where do immigrants settle?*

Immigrants are disproportionately settled in London. Although only 11.2% of the UK population lives in London, 40% of all immigrants live in London.

### **The parties' policies on immigration**

Conservative Party policy is to set a quota on immigrant workers that they hint will be lower than the numbers let in by Labour. Would-be immigrants will be judged by a points system with permits given only to those occupations deemed to be in short supply. Asylum-seekers will no longer be allowed to travel to the UK – they will be sent to overseas processing centres while their claims are heard. They will also be subject to quotas, even though this might violate the 1951 International Treaty on Refugees.

Labour's proposals also feature a points system for immigrants. The highly skilled will be assessed much as now, but there are hints that the unskilled may no longer be able to apply for citizenship. The Liberal Democrats also favour quotas, with exact number to be decided on after further debate.

### **Conclusions**

The parties' policies all offer further restrictions on the right of overseas people to settle in the UK. From an economic perspective, the contentiousness of the immigration issue is surprising. There are a large number of benefits to immigration and the proportion of new arrivals is a small part of the population in absolute terms and similar to (or smaller than) other developed countries.

During periods of strong economic development, migration is and has always been important for filling gaps in the labour market. The UK has been successful in attracting badly needed workers at different skill levels in the recent past. The recent increases in net immigration to the UK are therefore a sign of the strength of the economy rather than the weakness of migration policy. The UK's main European competitors use immigration to respond flexibly to the needs of their labour markets.

### **For further information**

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