

If the UK wants to cut immigration, it must change its model of capitalism



*The British economy is structurally dependent on migrant workers because it is lightly regulated and depends heavily on domestic demand, write **Alexandre Afonso** and **Camilla Devitt**. They explain why less immigration will require a greater role for the state.*

The desire to lower immigration was one of the [main drivers](#) behind the Brexit vote. Now, Theresa May's cabinet has signalled its resolve to cut numbers significantly, a longstanding pledge that the Conservatives had failed to make good on until now. With Brexit becoming a reality, however, the UK can expect lower inward migration, and numbers have been [falling already](#).

Reduced immigration will be due to the restrictions on free movement the government will put in place and weaker economic growth (Britain has grown at a much slower rate than any other major economy in 2017). A number of EU citizens faced with uncertainties about their status will also probably leave. For the British economy, less immigration will be problematic because it has come to structurally depend on it at both ends of its labour market, mostly due to its liberal and demand-driven economic model.

In a recent [article](#) in the *Socio-Economic Review*, we argue that different varieties of capitalism – how the economy is organised across countries – generate different levels of demand for migrant workers. From this perspective, the UK displays features that make it especially dependent on migrant labour. The UK combines the features of a so-called [Liberal Market Economy](#) (with low employment protection, a lightly regulated labour market, and a large low-wage sector) and a [consumption-led growth model](#) (which depends heavily on domestic household consumption and population growth rather than exports). These institutional features have strengthened demand for migrant workers to compensate for mismatches and imbalances in the socio-economic regime.

First, the British economy is a demand-led economy which relies to a greater extent on domestic consumption than export-led economies such as Germany. The UK draws to a greater extent on population growth and increasing house prices. Unlike Germany, where exports of goods and services represented 46% of GDP in 2016, this share was only 28% in the UK. Another major difference is population growth: between 2006 and 2016, the British population has grown at a much higher rate than the EU average: 0.75% per year against 0.3% (0.3% for Germany). Immigration accounts for more than half of this growth, and reducing the number of people coming into the country (and consuming goods and services) will inevitably weaken what had become an important driver of growth.

This is important because apart from financial services, Britain's export performance appears to be too weak to compensate for a smaller domestic demand. While Germany still has a strong export-oriented manufacturing base, the United Kingdom relies more heavily on services, not only high-skilled (e.g. finance) but also low-skilled sectors (retail, cafés, restaurants, personal and social services) and the construction sector. These sectors depend to a larger extent on migrant workers, especially in low-paid employment. For instance, 41% of packers, bottlers, canners, and fillers in the UK are EU nationals, and so are 26% of cleaners and housekeepers.

Second, because of the liberal nature of the labour market, there is a comparatively high number of low-paying jobs that natives are reluctant to take up. About 20% of jobs in Britain are low-paid (that is, they are paid less than two-thirds of gross median earnings) while this percentage is only about 10% in France and 8% in Denmark. The turn to austerity pursued by the Conservative government may have paradoxically increased this demand for low-wage migrant workers. In social care, for example, pressure for cost containment due to austerity has led to a deterioration of working conditions, and migrant workers are often the only ones who accept the low wages and asocial working hours that these jobs entail.

In sum, the British economy offers many low-paying jobs that natives, due to higher expectations, are reluctant to accept. This mismatch is filled by migrant workers. Catering, construction and care – all domestic services sectors which had come to depend heavily on EU workers – have now all reported [difficulties](#) in finding labour in the aftermath of Brexit.



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Third, the dependence on EU migration has also been accentuated by decades of deregulation which have lowered incentives for firms to produce skills domestically. This is a classic collective action problem: in order to have an adequate supply of skills, firms need to cooperate and pool resources to train new workers. However, it may be selfishly more expedient to let other firms train workers and then “poach” them without paying for training. If everybody is rational, no workers are trained.

A case in point is the construction sector, which has come to rely heavily on EU workers to compensate for the lack of domestic skills. Faced with fierce competition on costs, large-scale subcontracting and the widespread use of [“bogus” self-employment](#), companies have been reluctant to invest in training workers, and the workforce is [less skilled](#) than its equivalents in other European countries. Naturally, it has been easier for firms to draw on the skills of workers trained abroad, especially from Poland or other Eastern European countries.

Once again, EU workers have been used to plug the mismatch between the demand and supply of skills in the British labour market, and many British firms have been free-riding on skills produced abroad. This situation is not new. The NHS is a case in point: in 1971 already, [31%](#) of all doctors working in the NHS in England were born *and* qualified overseas.

There has been a fundamental contradiction in the combination of economic liberalism and hostility to immigration that has characterised Conservative policies in recent years, because austerity and free market economics tend to bolster demand for immigrants. In fact, countries which experience lower levels of immigration (e.g France) are also much more interventionist in economic policies, have larger public sectors, and higher taxes. Coping with lower immigration will most probably require a greater role for the state in training and regulation to solve the labour mismatches that immigration was solving up until now. The [more interventionist tone](#) of the last Tory manifesto may be a sign of this reorientation.

This article originally appeared at our sister site, [British Politics and Policy](#). It gives the views of the authors, not the position of LSE Brexit or the London School of Economics. The article draws on the authors’ recent article in [Socio-Economic Review](#).

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