PAPER EA019

CEP 2015 ELECTION ANALYSES SERIES

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A series of background briefings on the policy issues in the May 2015 UK General Election

Immigration and the UK Labour Market

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CEP ELECTION ANALYSIS

Immigration and the UK Labour Market

- The share of immigrants among working age adults in the UK more than doubled between 1995 and 2014 – from 8% to 17% – and now stands at over 6.5 million. Immigration is now the top concern in opinion polling.

- Net migration was 250,000 in 2014, significantly above the government's target of a maximum of 100,000 by the end of the current parliament.

- European Union (EU) countries account for one third of the total immigrant stock. New inflows of EU immigrants are almost as large as inflows from outside the EU. Most EU arrivals are for work-related reasons whereas most non-EU arrivals are for study-related reasons.

- Immigrants are better educated and younger than their UK-born counterparts, especially those from the EU15 (the members before the 2004 EU enlargement). Around 10% of all migrants are students. Immigrants are over-represented in the very high-skilled *and* very low-skilled occupations.

- Almost 40% of all immigrants live in London and 37% of Londoners were born abroad. Around 60% of the working age populations of Brent and Westminster are immigrants compared with under 3% in Knowsley and Redcar & Cleveland.

- Immigrants *do not* account for a majority of new jobs. The immigrant *share* in new jobs is – and always has been – broadly the same as the share of immigrants in the working age population.

- There is still no evidence of an overall negative impact of immigration on jobs, wages, housing or the crowding out of public services. Any negative impacts on wages of less skilled groups are small. One of the largest impacts of immigration seems to be on public perceptions.

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Introduction

Immigration is a big issue. Twenty years of rising immigration mean that there are now around 7.8 million individuals (and 6.5 million adults of working age) living in the UK who were born abroad. This is a large, but not unprecedented, rise in the UK population. Between 1975 and 1990, the UK working age population grew by around 200,000 a year, on average. This was driven not by immigration, but by a rise in the UK-born population. Between 1995 and 2014, the working age population also grew by around 200,000 a year, but the majority of this growth was due to immigration. Table 1 shows that 16.6% of the UK working age population are now immigrants, double the share in 1995.

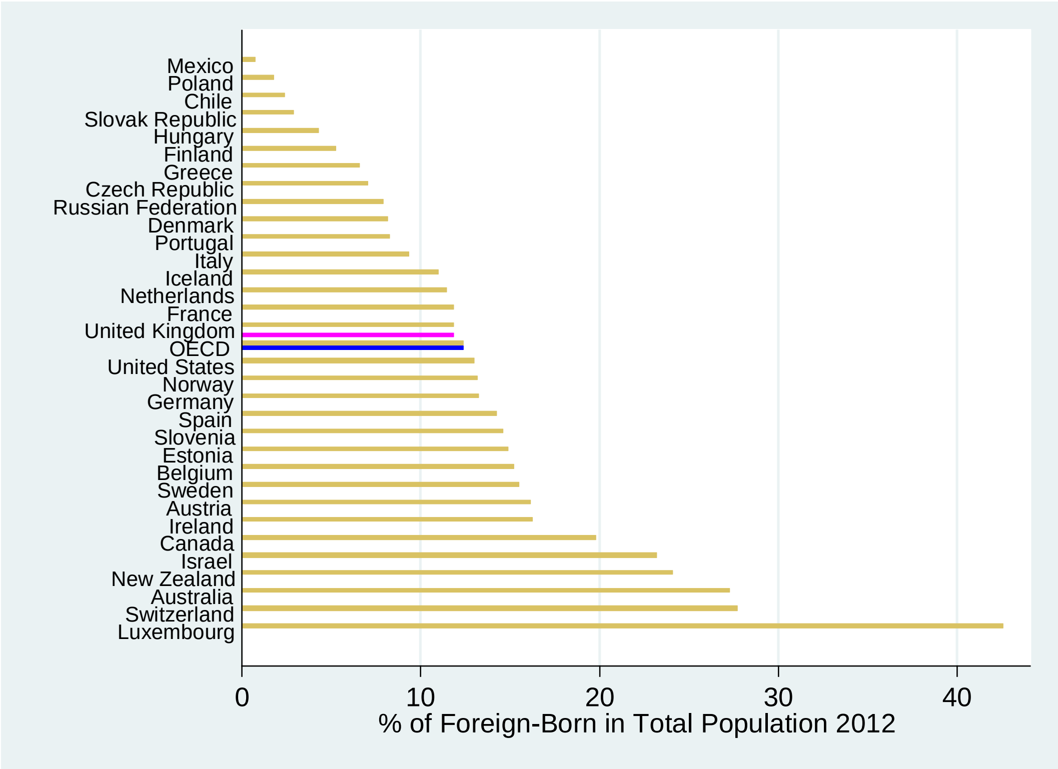
Table 1: Immigrants in the UK's working age population (16-64)

	Total (millions)	UK-born (millions)	Immigrant (millions)	Immigrant share (percentage)
1975	33.6	31.2	2.5	7.3%
1990	36.4	33.7	2.7	7.5%
1995	36.4	33.4	3.0	8.2%
2014	40.6	33.9	6.7	16.6%

Source: Labour Force Survey (LFS)

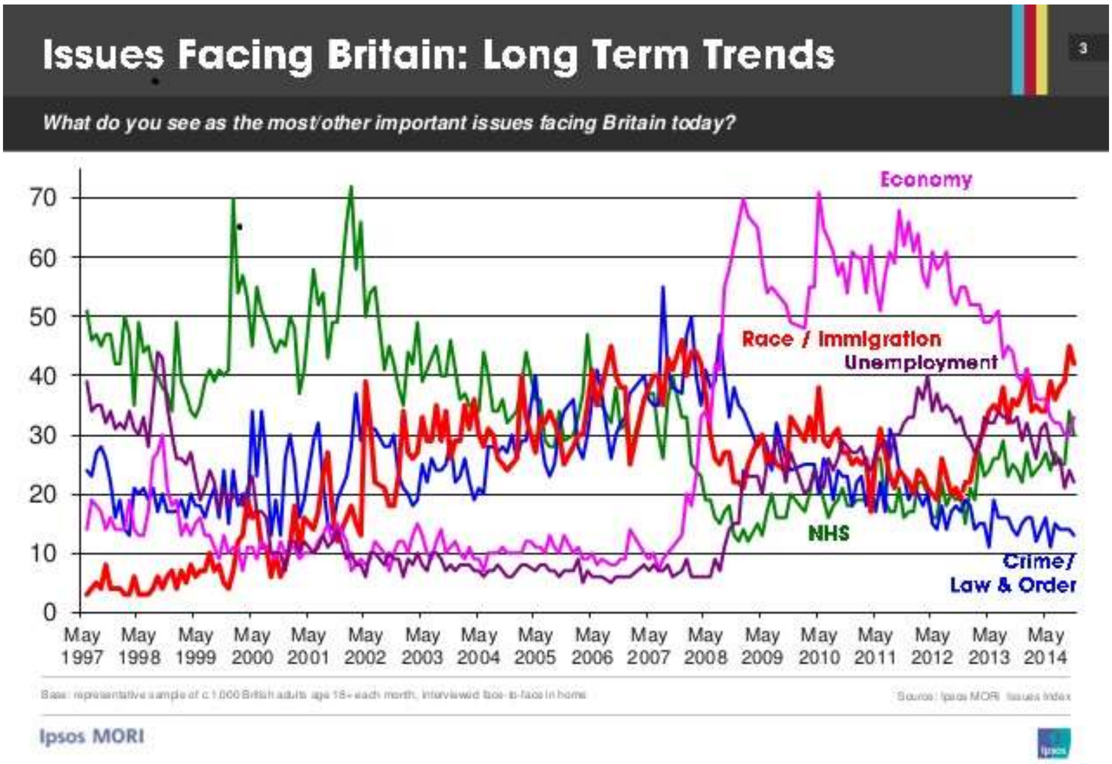
The UK is not particularly different from many other rich countries in terms of its share of immigrants (see Figure 1). But opinion polling now puts it at the top of voters' concerns (Ipsos MORI, 2014) above the economy, unemployment, the NHS and crime (see Figure 2).

Figure 1: Immigrant shares across the OECD



Source: OECD (2014)

Figure 2: Public perceptions of important issues facing Britain



Source: Ipsos MORI (2014)

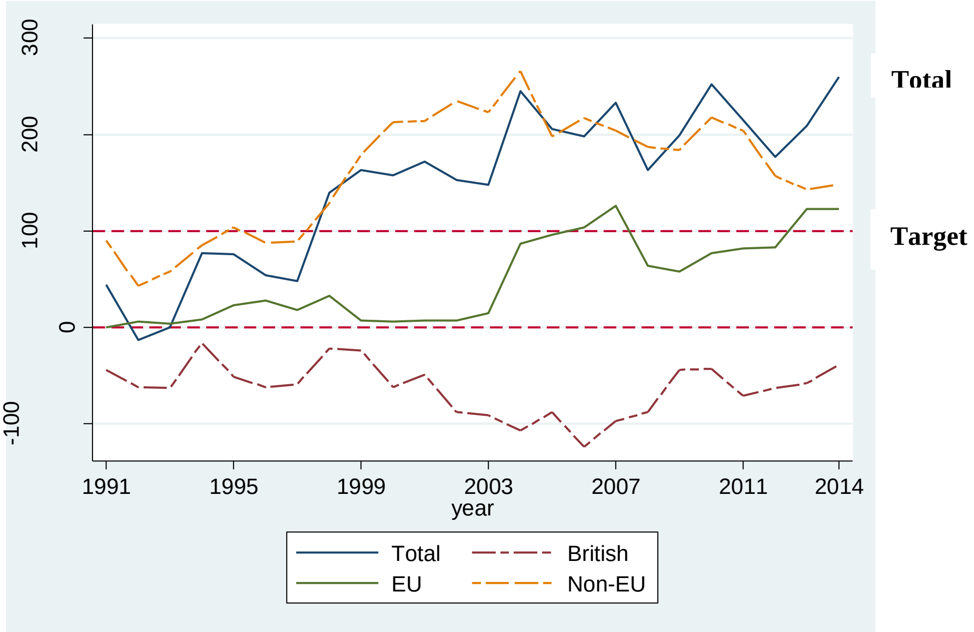
The stock of immigrants depends on both the size of inflows and the duration of stay, which in turn is related to the number of outflows of emigrants. If more people arrive than leave, then the stock will rise. If people stay longer, then the stock will also rise. According to the International Passenger Survey (IPS), total annual inflows to the UK have been larger than outflows since 1993.

The UK government's target of reducing *net* migration (the difference between the number of people entering the UK and the number of people leaving) to tens of thousands by the end of the parliament requires either a fall in the numbers entering the UK or a rise in the numbers leaving the UK (or both). Net migration was at its highest, at around 250,000 a year, in 2004, 2010 and 2014 (see Figure 3).[1] This means that the target has not been met.

When the data are split by citizenship (not country of birth), the IPS suggests that the number of UK citizens is falling by around 50,000 a year, but the net inflow of non-UK citizens has been growing – by around 250,000 a year since 1998. Immigration to the UK from the rest of the EU has recently grown as fast as immigration from outside the EU. At the same time, emigration from the UK has fallen back in recent years, making it harder to achieve a reduction in net migration.

[1] The 2014 data are from September 2014, the earlier data are from December of each year. There is a margin for error (95% confidence interval) of +/-40,000 people around any difference between inflows and outflows.

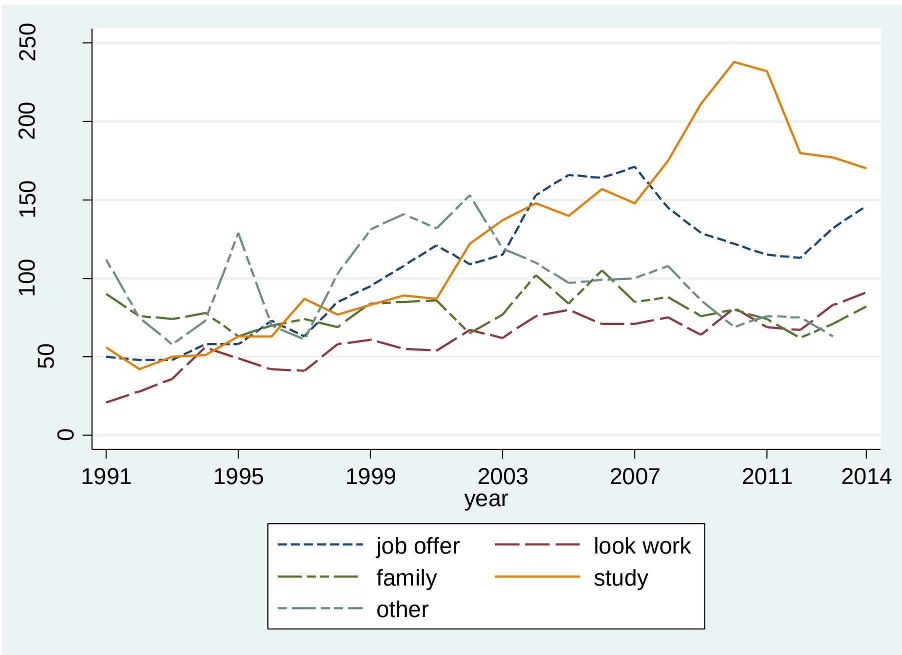
Figure 3: Net UK inflows (inflows minus outflows) by citizenship



Source: LTIM (2014).

The stock of immigrants in the UK is influenced by both the country's relative economic performance and its immigration policy. Just as in Canada and Australia, the UK's immigration system has for some time restricted work-related immigration from outside the EU to (a varying subset of) skilled individuals. Study and family reunion are the other two main reasons for entry into the UK. In the 1990s, family reunion was the dominant entry route. Now student inflows are the main reason for entry, followed by those with a definite job offer, (see Figure 4 and Table A1). Student inflows have fallen significantly in the last few years. Most immigration from within the EU is for work-related reasons. Most immigration from outside the EU is for study-related reasons, (see Table A1).

Figure 4: Annual inflows by reason



Source: LTIM (2014)

Which countries do immigrants come from?

Table 2 shows the country of origin of the top five 'sender' countries in 1985 and 2014 for the stock of existing immigrants and the flow of new immigrants. Thirty years ago, 30% of all immigrants came from just two countries: Ireland and India. These two countries now account for just 13% of all immigrants. Today, Poland accounts for 9.4% of all new immigrants, closely followed by India. There are now nearly two million migrants from the EU resident in the UK.[2]

Table 2: Country of origin of immigrants to the UK (percentage share of migrants in brackets)

Largest senders	1985	2014	
All immigrants			
1	Ireland (16.5%)	Poland (9.4%)	780,000
2	India (13.5%)	India (9.2%)	750,000
3	Pakistan (6.9%)	Pakistan (6.1%)	500,000
4	Jamaica (5.1%)	Ireland (4.2%)	350,000
5	Germany (4.6%)	Germany (3.4%)	280,000
New immigrants (arrived in last year)			
1	United States (20.6%)	Poland (10.6%)	50,000
2	Ireland (10.6%)	India (6.7%)	40,000
3	India (5.2%)	USA (6.2%)	31,000
4	Pakistan (4.1%)	Italy (5.4%)	28,000
5	Germany (3.9%)	China (4.9%)	25,000

Source: LFS

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 (see Table 3). While just under half of the UK-born workforce left school at 16 or earlier, fewer than one in eight new immigrants did so. EU15 migrants are twice as likely to be graduates as the UK-born population. A8 migrants (those from the eight East European countries that joined the EU in 2004) are also more likely to be graduates than the UK-born, and most other A8 immigrants have intermediate levels of education.

Table 3: Education and immigrant status (working age population), 2014

	% of group with each level of education				
Age finished education	UK-born	All immigrants	EU15	A8	New immigrants
16 or under	46.1	18.9	22.5	7.8	6.2
17-20	31.2	37.3	29.6	54.5	36.5
21 or older	22.6	43.8	47.9	37.8	57.4

Source: LFS

[2] Comparable figures for the number of UK-born living in the EU are hard to come by. The OECD estimates that in 2012 there were at least one million UK-born individuals living in the rest of the EU (http://stats.oecd.org/Index.aspx?DataSetCode=MIG).

There is a larger than average share of immigrants than UK-born working in professional occupations (see Table 4, last column). But there are also more immigrants than average in processing and elementary occupations (such as cleaning and bar work). This occupational mix in both high-skilled and less skilled jobs is reflected in the distribution of immigrants across industries (see Table 5). The health, hotel and restaurant sectors employ more migrant workers than other sectors, while the energy, agriculture and public administration sectors employ relatively fewer migrant workers. EU15 migrants are concentrated in the finance sector. In terms of age profile, immigrants are more likely to be in their twenties and thirties than the UK-born.

Table 4: Occupational distribution of immigrants and UK-born, 2014

	% of UK-born	% of immigrants	%of EU15 immigrants	% of A8 immigrants	% of occupation who are immigrants
Managerial	10.0	9.0	10.1	4.3	14.6
Professional	19.5	22.6	31.5	5.8	18.0
Assistant professional	14.9	10.4	15.8	4.7	11.7
Administrative	11.2	7.6	10.0	5.1	11.4
Skilled trades	11.1	9.1	5.8	16.1	13.3
Personal service	9.4	9.8	7.6	8.9	16.5
Sales	8.2	6.4	4.7	5.5	12.9
Processing	5.9	5.9	3.7	16.7	20.9
Elementary	9.9	9.9	10.9	33.1	24.5

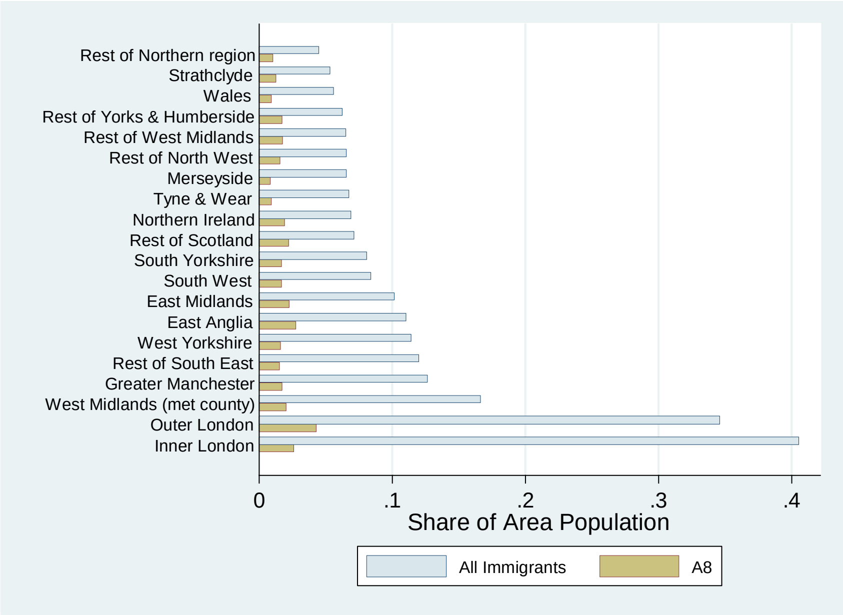
Source: LFS

Table 5: Industrial distribution of immigrants and UK-born, 2013

	UK-born	Immigrants	EU15	A8	Percentage % of industry who are immigrants
Agriculture	1.7	1.1	0.7	2.4	10.8
Manufacturing	10.6	10.7	10.6	21.1	16.1
Energy	1.3	0.7	1.0	0.3	9.3
Construction	7.4	5.2	4.0	7.9	11.7
Retail	13.5	12.4	8.2	16.3	14.8
Hotels and restaurants	4.5	10.1	7.7	12.9	29.6
Transport	5.8	7.3	5.6	7.5	19.3
Finance	17.8	20.4	24.8	13.5	17.9
Public administration	6.4	4.0	4.9	2.0	10.4
Education	10.7	7.8	12.1	4.1	12.2
Health	13.6	14.8	13.6	6.9	17.1
Other	6.7	5.7	6.9	5.1	13.8

Where do immigrants settle?
Almost 40% of all immigrants live in London. While A8 immigrants are more regionally dispersed than other groups of migrants, London remains the most common destination. Immigrants make up 37% (more than one in three) of London's population (see Figure 5). 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 and Redcar & Cleveland.

Figure 5: Immigrant share in regional population 2014



Source: LFS

The labour market costs and benefits of immigration

Since immigration increases labour supply, it may be expected to reduce wages of the UK-born. UK immigrants are more skilled than those in the United States, so such pressure is more likely to *reduce* inequality as the wages of top jobs are likely to fall. But if labour demand rises, there may be no effects of immigration on wages and employment. An open economy may also adjust by means other than wages, such as changing the mix of goods and services produced.

If there is excess demand for labour in the receiving country, the impact of immigration will be different from that in a country already at full employment. Concerns about substitution and displacement of the UK-born workforce become more prevalent when output is demand-constrained, as in a recession or when capital is less mobile

Empirical research on the labour market effects of immigration to the UK finds little overall adverse effects of immigration on wages and employment for the UK-born.

The empirical evidence shows that:

- Immigrants and native-born workers are not close substitutes on average (existing migrants are closer substitutes for new migrants). This means that UK-born workers are, on average, cushioned from rises in supply caused by immigration (Manacorda et al, 2011).

- The less skilled are closer substitutes for immigrants than the more highly skilled. So any pressures from increased competition for jobs is more likely to be found among less skilled workers. But these effects are small (Manacorda et al, 2011; Dustmann et al, 2005, 2013; Nickell and Saleheen, 2008).

- There is no evidence that EU migrants affect the labour market performance of native-born workers (Lemos and Portes, 2008; Goujard et al, 2011).

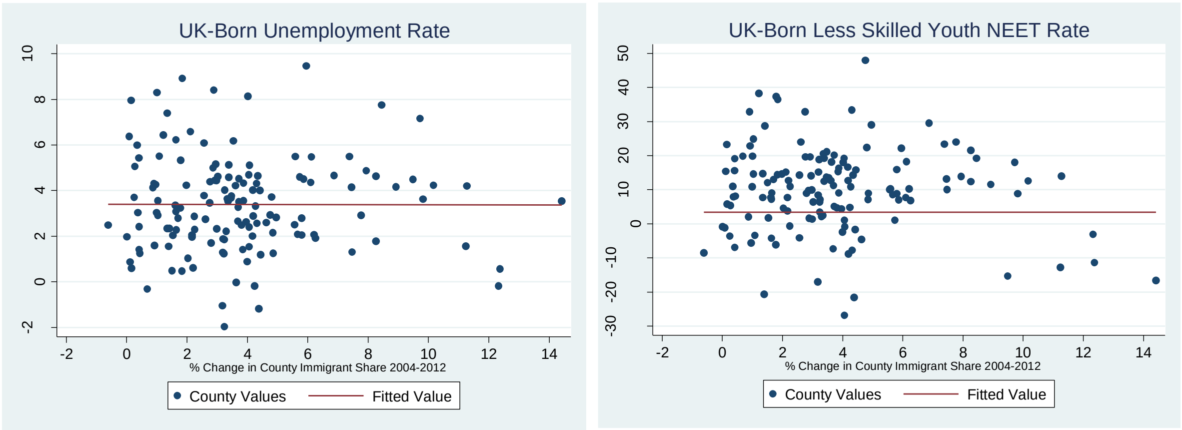
One concern with these findings is that they were based on data preceding the recession when demand was higher on average. To look at this more directly in recent years, we can examine whether immigration is associated with joblessness of the UK-born population across different geographical areas. If rising immigration crowds out the job prospects of UK-born workers, we might expect to see joblessness rise most in areas where immigration has risen most.

Figure 6 plots the change in each county's unemployment rate for UK-born workers against the change in its immigration share between 2004 and 2012. Each dot represents a county. The red line summarises the strength or otherwise of the relationship. The flatter the red line, the weaker any correlation. The figure shows the lack of correlation between changes in the native-born unemployment rate and changes in immigration.

While there appear to be no average effects, it may be that the average is concealing effects in the low wage labour market where (despite their higher relative education levels) many new immigrants tend to find work. Equally, 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.

But Figure 6 shows that there is no evidence of any association between changes in the less skilled (defined as those who left school at age 16) native youth NEET ('not in education, employment or training') rate and changes in the share of immigrants. *Counties that experienced the largest rises in immigrants experienced neither larger nor smaller rises in native-born unemployment.*

Figure 6: No relationship between changes in immigration and unemployment, 2004-12



Source: Annual Population Survey

Figure 7 repeats the exercise for wages. Again, there is little evidence of a strong correlation between changes in wages of the UK-born (either all or just the less skilled) and changes in local area immigrant share over this period.

Figure 7: No relationship between changes in immigration and local wages, 2004-12

Source: Annual Population Survey

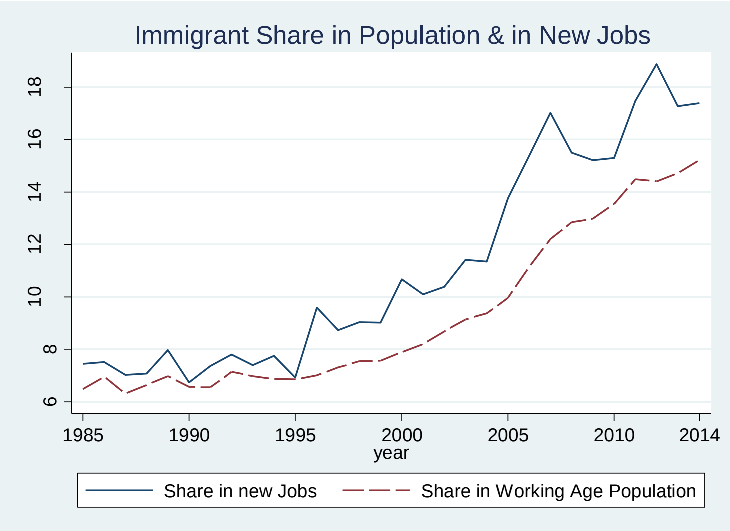
Immigrants and new jobs

It is sometimes said that immigrants account for the majority of the new jobs generated. This is a misinterpretation of changes in aggregate jobs data. In times when the population is rising, the number of immigrants will grow alongside the numbers in employment. To look at who gets new jobs, we need to look at evidence on hiring. The actual immigrant *share* in new jobs (the share of immigrants in jobs that have lasted less than three months) is broadly the same as the share of immigrants in the working age population (see Figure 8). Therefore it is not the case that most new jobs are taken by immigrants.

Immigrants and other economic outcomes – public finances and public services

In terms of public finances, because immigrants are on average younger and in work, they tend to demand and use fewer public services and they are more likely to contribute tax revenue (Dustmann and Frattini, 2014). This is particularly true with EU immigrants and also with recent arrivals from outside the EU.

Figure 8: Immigrant share in new jobs



Source: LFS

The labour market is just one area in which rising immigration could have important effects, though there are many others, such as health (Wadsworth, 2013), schools (Geay et al, 2013), housing (Battiston et al, 2013; Sa, 2014) and crime (Bell et al, 2013). We know much less about these issues than we do about the labour market, but there is a growing body of UK research evidence on these important issues.

Conclusions

On balance, the evidence on the UK labour market suggests that fears about adverse consequences of rising immigration regularly seen in opinion polls have not, on average, materialised. It is hard to find evidence of much displacement of UK workers or lower wages. Immigrants, especially in recent years, tend to be younger and better educated than the UK-born and less likely to be unemployed. So perceptions do not seem to line up with the existing evidence and it is perhaps here that we need to understand more.

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Further reading

Battiston, D, R Dickens, A Manning and J Wadsworth (2013) 'Immigration and the Access to Social Housing in the UK', Centre for Economic Performance Discussion Paper No. 1264 (http://cep.lse.ac.uk/pubs/download/dp1264.pdf).

Bell B, F Fasani and S Machin (2013) 'Crime and Immigration: Evidence from Large Immigrant Waves', *Review of Economics and Statistics* 95(4): 1278-90.

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Geay, C, S McNally and S Telhaj (2013) 'Non-Native Speakers in the Classroom: What are the Effects on Pupil Performance?', *Economic Journal* 123: F281-307.

Goujard, A, B Petrongolo and J Van Reenen (2011) 'The Labour Market for Young People', in P Gregg and J Wadsworth (eds) *The Labour Market in Winter*, Oxford University Press.

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Lemos, S and J Portes (2008) 'New Labour? The Impact of Migration from Central and Eastern European Countries on the UK Labour Market', IZA Discussion Paper No. 3756, Institute for the Study of Labor, Bonn.

LTIM (2014) Provisional Long-Term International Migration (LTIM) estimates, Year Ending June 2014 (Excel sheet 991Kb)

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OECD (2014) *International Migration Outlook*, Paris.

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Wadsworth, J (2013) 'Mustn't Grumble: Immigration, Health and Health Service Use in the UK and Germany', *Fiscal Studies* 34(1): 55-82.

Technical annex

Table A1: Inflows by citizenship and reason for entry (000s)[3]

	Job offer	Look for Work	Study	Family	Other
2004					
Total	143	72	134	102	78
Non-EU	77	36	110	73	32
EU	51	14	18	9	13
Of which					
EU15	*47*	*9*	*16*	*6*	*6*
A8	-	*5*	*2*	*3*	*6*
2014					
Total	146	91	170	82	49
Non-EU	44	12	121	54	13
EU	82	60	40	16	12
Of which					
EU15	*47*	*24*	*27*	*7*	*6*
A8	*24*	*23*	*6*	*8*	*4*

Source: LTIM (2014)

There is now very little difference between the unemployment rates of immigrant and UK-born men. Historically, the employment gap has widened in recessions and narrowed in economic recoveries. This did not happen during the latest recession, particularly among men. Unemployment rates for immigrants and UK-born rose and then fell back by similar amounts (see Figure A1). But unemployment rates for female immigrants remain higher than among UK-born women.

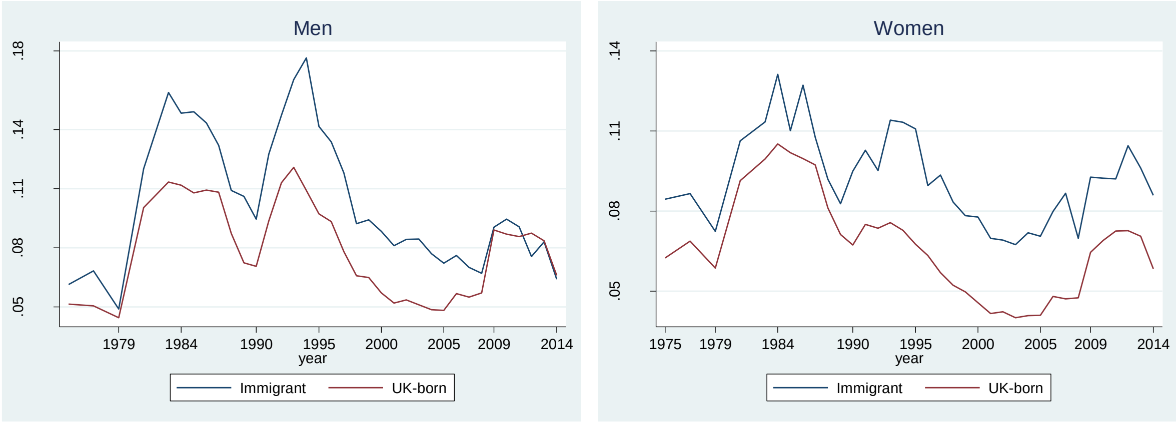
The higher average unemployment rate of immigrants in the past was explained in part by a relative lack of skills and the fact that many of them were employed in insecure jobs: anyone who is in this sort of job faces much higher risks of subsequent unemployment.

Changes in the skill mix of immigrants over time can explain the convergence in unemployment rates (though immigrants remain, on average, more likely to be unemployed given their qualifications). New immigrants cannot claim state benefits unless they are working or have paid sufficient contributions when in work.

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 all the variances.

[3] Sub-totals do not add to total because of a residual (undefined) citizenship category.

Figure A1: Unemployment for immigrants and UK-born men and women



Source: LFS

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